



“Elecon Engineering Company Limited Q1-FY16
Earnings Conference Call”

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**MANAGEMENT: MR. PRAYASVIN B. PATEL – CHAIRMAN AND
MANAGING DIRECTOR, ELECON ENGINEERING
COMPANY LIMITED
MR. RAJAT JAIN – CFO, ELECON ENGINEERING
COMPANY LIMITED
ANKIT GUPTA, CHRISTENSEN INVESTOR RELATIONS**

Moderator: Ladies and Gentlemen, good day and welcome to the Elecon Engineering Company Limited Q1 FY16 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode. 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. Ankit Gupta, thank you and over to you.

Ankit Gupta: Welcome everyone and thanks for joining this Q1 FY16 Earning Call for Elecon. Please note that results have been mailed to you and you can also view this result on the Stock Exchange and also on our website. To take us through the result of this quarter and to answer your questions, we have today Mr. Prayasvin B. Patel – Chairman and Managing Director of Elecon and Mr. Rajat Jain who is the CFO.

We will be starting this call with a brief overview on the Company's performance which will then be followed by a Q&A session. I would like to remind you that everything said on this call that reflects any outlook for the future or which can be construed as a forward-looking statement viewed in conjunction with uncertainties and risks that they face. These uncertainties and risks are included but are not limited to what we have mentioned in our prospectus filed with SEBI and subsequent annual report which you can find on our website.

With that said, I now turn the call over to Mr. Prayasvin B. Patel. Over to you sir.

Prayasvin B. Patel: Good evening ladies and gentlemen, a warm welcome to our Q1 FY 2016 earnings call. We are pleased to begin first quarter of this financial year with a healthy operating performance.

At the standalone level the Gear business reflected a muted top-line at Rs. 97.6 crores. However, we have registered a significant 515 bps expansion of the EBITDA margins from 18.6% in Q1 FY15 to 23.5% in Q1 FY16. The Net Profits have gone up by 186% from Rs. 1.2 crore in Q1 FY15 to Rs. 3.6 crore in Q1 FY16. The Gear business Order Book remains robust at Rs. 141 crore while the pending orders account for Rs. 262 crores.

We are also happy to share unaudited consolidated financials with our investors. At the consolidated level we registered a top-line of Rs. 257 crores which is lower by 4% year-on-year. Given that the core sectors are still not out of stress the Material Handling business registered a drop of 14% in sales year-on-year. The consolidated EBITDA stood at INR 30.8 crores which reflects an increase of 18% year-on-year. The EBITDA margins at the consolidated level are 12% against 9.7% in Q1 FY15. Our consolidated Net Profits are INR 4.1 crores at the consolidated level. Year-on-year percentage in the EBITDA reflects our efforts spent in improving the overall performance in manufacturing and in the improvement in resource utilization of the company. We have been working very hard in implementing the Total Productivity Management (TPM), across divisions and I am happy that we have been able to reduce our costs as a result of that. However, we believe the economic activity is still taking time to recover and our customers are deferring their decisions on execution and timelines. We are very confident that in the medium to long term the favorable government policies will start

yielding constructive results which in turn will bring traction to both our Material Handling and Gear business.

In case there are specific questions on the financials I will ask Rajat Jain, our CFO, to step in.

Thank you. Now we are open for the Q&A.

- Moderator:** Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Balachandra Shinde from Batlivala & Karani Securities. Please go ahead.
- Balachandra Shinde:** On the MHE business as you specified 14% drop, if you can give the values it will be helpful.
- Rajat Jain:** MHE did a turnover of INR 89.31 crores in this quarter.
- Balachandra Shinde:** If you can give EBIT margins for MHE business and Gear business?
- Rajat Jain:** Gear business EBITDA margins this quarter was 23%. MHE we ended up with a loss.
- Balachandra Shinde:** Any outlook on the international Gears how was the performance in that segment?
- Rajat Jain:** We had informed investor community that the International business is doing a turnaround. Therefore we should be seeing some better results going forward. This quarter, we ended at PAT positive and turnover was Rs. 75 crores at the consolidated level for overseas entities and their Net PAT was Rs. 5.2 crores.
- Balachandra Shinde:** Order Book of MHE and international Gears if you can give?
- Rajat Jain:** The Order Book of MHE is Rs. 1100 + crores and International Gear Order Book should be somewhere around Rs. 100-150 crores.
- Balachandra Shinde:** As you specified earlier also like mining activities are improving and expected that around order inflows may come in over second half of FY16 and even on the Gears side there would be improving mining activities and other activities. Gear order inflows may also show that kind of pickup. So what kind of scenario you see now currently? As you specified that customer deferments are happening but will those things subside and we will see an execution improvement?
- Prayasvin B. Patel:** As of now we are not seeing any changes happening in the order inflow which means we are not seeing any positive changes happening in the Gear business. However, in our underground mining company Eimco Elecon we are seeing positive changes happening which means that private sector who have taken up the coal blocks have started ordering equipment. And I am sure that will also start reflecting in the Gear business very shortly.

- Balachandra Shinde:** Working Capital-wise how we are placed? And also on the debt levels, are we reducing debt? What are the current debt levels?
- Rajat Jain:** Current debt levels as compared to March 2015 are similar and we have not increased any new debt in Q1 FY16. Also we have been giving our rationale that we have to reduce our debt so the target is to reduce overall debt but it will depend upon how the Order Book grows and populates and how the turnover goes ahead. But as of Q1 FY16 there is no increase in debt as compared to FY15.
- Balachandra Shinde:** Last question, regarding our Receivable from Techpro which is comparatively significant, any change on that? Are we seeing any bad debts, debtors from those side or we see that comparatively that Receivables will come over the next few quarters?
- Rajat Jain:** There is no change in terms of our perception which we had discussed in May (investor Day) Tecpro related activity is going, but it is very slow and it may take some time to get settled so we don't know as in how much it will get settled and how much will not get settled but the ultimate customer is in discussion with us and we are discussing with the ultimate customer. Things are moving but they are very slow because it is all dealing with the government sector, public sector. So the decisions over there are not fast and they take their own time.
- Moderator:** The next question is from the line of Madangopal from Sundaram Mutual Fund. Please go ahead.
- Madangopal:** This turnaround in the international business, we should assume this should be continuing for the year? And what has led to the turnaround if you can explain?
- Prayasvin B. Patel:** Basically what has happened is that after we took over, we have moved all the critical component manufacturing to India and Thailand because of cost reasons as it's more economical to manufacture in India. And that is also to improve the utilization of our facilities in India. This has given us better margins; apart from that we have been also taking a lot of cost-cutting measures whereby there have been improvement in margins.
- Madangopal:** So this should be continuing? Because last two years there were some losses in this so now we should expect the turnaround to sustain?
- Prayasvin B. Patel:** Yes. Not only that, now that we have things in place we will also try to increase our volumes further which would further enhance our margins.
- Moderator:** Our next question is from the line of Chetan Vadia from JHP Securities. Please go ahead.
- Chetan Vadia:** Any outlook for the Order Book status for Gears and the MHE division for FY 16?
- Rajat Jain:** We have Order Book of around Rs. 260 crores in Gear and around Rs. 1100 + crores in MHE.
- Chetan Vadia:** What kind of order inflow can we expect? And in how many others are you L1 right now?

- Rajat Jain:** As of today how many are L1, we may not be able to share, but outlook is that we expect to book more than 1000 crores worth of orders in this year. It will depend upon the timing of the tenders to be floated by the public sector companies because it will be mainly from NTPC or NMDC kind of customers, so whenever they open the tenders we will be there bidding for them and as of today its only one order which is in the pipeline which they have opened the tender, its yet to come up so we will see how it goes ahead.
- Chetan Vadia:** This is combining both the Gear and the MHE business?
- Rajat Jain:** No, it's only MHE, EPC business.
- Chetan Vadia:** In terms of overall revenue per se can you provide us some guidance for FY16?
- Rajat Jain:** We should see a top-line growth of somewhere around 10% as compared to FY15.
- Chetan Vadia:** Primarily it is led by Gears, right?
- Rajat Jain:** I am talking about the consolidated level.
- Moderator:** Thank you. Our next question is from the line of Balachandra Shinde from Batlivala & Karani Securities. Please go ahead.
- Balachandra Shinde:** Sorry I missed that number. Did you say 1000 crores kind of order inflows we can expect from MHE business whenever the order tendering will get open?
- Rajat Jain:** Yes.
- Balachandra Shinde:** So by second half FY16 we can expect that kind of business? If at all these tender comes then we can expect around additional 1000 crores kind of order inflow?
- Rajat Jain:** This will be spread across next three quarters; it is not that by end of half year we will get 1000 crore order book. It will depend when the tenders come in, when the ordering happens. You know one tender takes 2-3 months and will be one tender at a time, so it is not going to happen that three plants come in one go, that will be one by one.
- Balachandra Shinde:** Regarding the raw material cost actually our raw material cost has improved, like gross margins have improved by around 610 basis points. Any particular reason behind that or is it largely because of the commodity prices softening?
- Rajat Jain:** For Gear business our raw material price consumption or direct cost has reduced because of a better execution of spare orders in Q1FY16 as compared to Q1 FY15.
- Balachandra Shinde:** So no specific reason? It will be consistent enough? We can maintain that kind of gross margins over next quarters?

- Rajat Jain:** It will be based on the product mix and sales mix. If we are able to execute our spare orders, get more spare orders and if they contribute to a larger chunk to our top-line, then our margins will be maintained better.
- Balachandra Shinde:** How much was our spare sales in this quarter versus last year same quarter?
- Rajat Jain:** It contributed around 10% more in our top-line.
- Balachandra Shinde:** What kind of guidance we see in EBITDA margins for FY16?
- Rajat Jain:** If you remember we had done the Investor Meet in May and there we had given the guidance also. It will flow on that pattern top-line growth by 10% with EBITDA margins for stand-alone business somewhere around 24-25%.
- Moderator:** The next question is from the line of Rajesh Shah from Equirus Capital. Please go ahead.
- Rajesh Shah:** You mentioned Order Book in the Gear division, how much that was?
- Rajat Jain:** Around Rs. 260 crores.
- Rajesh Shah:** Right now in which industry you are saying more traction? You mentioned last time in your Analysts Meet but recently in which segment you are seeing more pick up.
- Prayasvin B. Patel:** Right now we are seeing a reasonable traction, especially in order execution for exports and the inflow of orders in power and mining to an extent.
- Rajesh Shah:** So in mining segment is it because of the recent coal block auctioning, you are getting the orders or is it not related completely?
- Prayasvin B. Patel:** Not as yet.
- Rajat Jain:** And these are mainly the conveyor belts related orders
- Rajesh Shah:** Export you said your execution is more. How much contribution of Order Book comes from exports in Gear division?
- Prayasvin B. Patel:** We are right now at 15% and we have plans to increase it further.
- Rajesh Shah:** And which geographies basically is driving this export growth?
- Prayasvin B. Patel:** It is Far East and Middle East.
- Rajesh Shah:** In Middle East you are still seeing activity in terms of ordering? I mean you said there is an execution which happened but are you seeing the same kind of momentum in ordering as well?

- Prayasvin B. Patel:** Yes.
- Rajesh Shah:** How does the pricing work in this segment? Is it a complete tender based activity or you negotiate, how this striking works in this segment?
- Prayasvin B. Patel:** It is not on tendering basis. Because most of our customers are private sector so it is based on an enquiry and then offers are made and they are negotiated and finalized.
- Rajesh Shah:** So do you hedge your raw material exposure the moment you get an order or you keep it open?
- Prayasvin B. Patel:** Normally we do not hedge. We buy as and when after our design and engineering gets completed, after receipt of the order.
- Rajesh Shah:** So if receive some orders let's say six months back, probably commodity basis has reduced sharply from that time, so is that resulting into gains in terms of your gross margin improvement?
- Prayasvin B. Patel:** Normally yes.
- Rajesh Shah:** You mentioned that spares sales is higher in the current quarter, how much is contributed to sales? I missed that point.
- Rajat Jain:** Spares basically contributes around 20% of our top-line. In this quarter it was somewhere around 25%.
- Moderator:** The next question is from the line of Sanjeev Panda from Sharekhan. Please go ahead.
- Sanjeev Panda:** In one of your initial commentaries you said your another company where the mining activities has probably picked up and you see better number or outlook. Don't you think that we can also be beneficial out of it or is there anything specific because if I am not wrong that company is into underground mining kind of equipment handling so is it only in those space the activities have started in mining space or the overall mining you think that we can see some kind of traction which we have just started seeing there and probably which will going forward we can also experience the same.
- Prayasvin B. Patel:** The companies that you are talking about is Eimco Elecon. They are into underground mining but they also do tunneling work. That means their machines and equipment are also used for tunneling. Now tunneling is normally an activity which precedes mining which means you create those tunnels and then you start mining. So they are the first ones to get the benefit, so it has started at that level. Now over a period of time they will require conveyors to move the coal which will be installed very shortly. So I am confident that it will get reflected into conveyors, components, gear boxes and so forth very shortly in another 4-6 months.
- Sanjeev Panda:** So can we say that that kind of positive traction could be lead time of say around 6 months is something that we should also seeing the ordering part? Am I right in that?

- Prayasvin B. Patel:** We presume that that would mean that in 6 months or so we will start seeing activities where enquiries would start floating in further.
- Rajat Jain:** You said the incremental enquiry in Eimco Elecon, just wanted to confirm that, it is primarily driven by the new auction winners, from them only it has started
- Sanjeev Panda:** Yes the private sector has started ordering. Their main customer has been Coal India but now we are seeing that equipment are being ordered by the private sector especially people who have taken the new coal blocks.
- Moderator:** Our next question is from the line of Madangopal from Sundaram Mutual Fund. Please go ahead.
- Madangopal:** You said the international Gears has made a 5 crores of PAT if I am right in the beginning of the call?
- Rajat Jain:** Yes.
- Madangopal:** If I look at the stand-alone number and the consolidated number and try to work back it looks like the MHE business therefore would have suffered a loss.
- Prayasvin B. Patel:** Yes.
- Madangopal:** 11 crores of loss.
- Rajat Jain:** No, its loss of 8.7 crores.
- Madangopal:** This is due to lower execution at that level?
- Rajat Jain:** Yes. Top-line de-growth has resulted into the loss.
- Madangopal:** Is there any split available in the numbers that you have sent. I could not figure out. And the numbers reach to us very late.
- Rajat Jain:** What kind of split you want?
- Madangopal:** Between Gears, international and domestic and then MHE.
- Rajat Jain:** The turnover for stand-alone Gear domestic business was Rs. 97 crores. I am talking in terms of round off numbers, so you don't do the arithmetic. And for EPC it is Rs. 89 crores and for overseas it is Rs. 75 crores. Other subsidiaries and associates contribute for the balance.
- Madangopal:** If you can tell us the EBITDA also it will be helpful.
- Rajat Jain:** EBITDA for stand-alone is Rs. 25 crores, for EPC it is Rs. 88 lakhs, for overseas it is Rs. 7 crores and rest is by other entities.

- Madangopal:** This EPC suffered because of lower Order Book I would presume?
- Rajat Jain:** Not Order Book, it is due to lower execution. Order Book is there but the execution could not happen because of various reasons.
- Madangopal:** You are seeing some momentum already in the second quarter still they are in problem?
- Prayasvin B. Patel:** It's basically due to liquidity crisis which is continuing with our customers. In turn it has affected our turnover and we only hope that the second and the third quarter we will see some visible improvement.
- Madangopal:** This is mostly in private sector is it?
- Rajat Jain:** No. It is both on the government as well as private sector.
- Madangopal:** Even government projects you are seeing them suffering on the use of liquidity or there is some other reason for them?
- Rajat Jain:** We will say that some public sector companies which are blue-chip and navratnas we are not seeing major problems but there are some other public sector companies which have liquidity issues, we are having problems with them.
- Madangopal:** It's the metal sector related companies that is kind of slowing down?
- Rajat Jain:** No, it's not metal sector they are basically kind of contractors to various other companies, so they cater to all kinds of sectors, it's not that specifically metal sector we are seeing anything going down. Metal sector, NMDC is going good. They have cash flow. That's not a problem at all.
- Madangopal:** In terms of enquiry in the EPC business are you seeing traction coming in with lot of state sector projects getting awarded now?
- Rajat Jain:** If you see in the last one month whatever state sector projects have been announced they have given them on a priority basis and they have not tendered like AP state. The Andhra Pradesh has just given orders to BHEL, no one else. They did not even invite tenders. So it was on nomination basis. But states which are coming up with tendering we don't see any movement over there as of now.
- Madangopal:** But BHEL would likely outsource it, BHEL would not be doing it.
- Rajat Jain:** Yes BHEL would outsource but we have not seen anything happening over there as of today. So the orders have on a nomination basis been given to BHEL but BHEL has to start tendering for them and start ordering, so we don't see any movement as of today over there.
- Madangopal:** Not even from NTPC, is it?

- Rajat Jain:** NTPC basically as of today working on the orders which basically they are re-tendering because of Tecpro issue, so one or two orders may get re-tendered in coming months, based on that we will see. But new projects still on NTPC side we are not seeing any big movement.
- Madangopal:** On domestic Gear its flat kind of a performance in top-line. Do you think this would continue and you are yet to see some sort of improvement in the industries that you cater?
- Rajat Jain:** Gear basically was flat because infrastructure industry overall is flat but once we start seeing movement on that mining side which just we spoke a few minutes back on Eimco Elecon seeing some movement in the mining industry, so once that traction starts coming in Gear business should start showing some positive traction.
- Madangopal:** Stand-alone finance cost was flat but your consolidated number has shown a sharp decline in finance cost almost like 3.6 crores sort of a reduction. Can we take the current quarter as a run rate?
- Rajat Jain:** Yes hopefully yes because if you see over the last two years we have been reducing our debt so that is getting reduced so hopefully we should see this going forward but it will depend how the industry behaves. Because if the new orders don't come in but old orders we'll have to execute so we may end up borrowing some more money but it will depend upon the cycle of ordering.
- Madangopal:** What is the consolidated debt now?
- Rajat Jain:** Somewhere around 500+ Cr
- Madangopal:** Last year same quarter was how much?
- Rajat Jain:** July 2014 was somewhere around 600+ Cr
- Madangopal:** And was it the reduction of 100 crores MHE or International Gear business?
- Rajat Jain:** It's overall, it's across all the three companies.
- Moderator:** Thank you. As there are no further questions I now hand the conference over to Mr. Ankit Gupta for closing remarks, over to you sir.
- Ankit Gupta:** Thanks a lot everyone for attending this call. We apologize for the delay in sending of results. I would recommend in case you have specific questions you may write to me at ankitgupta@christensenir.com and we will be happy to get back to you with the answers. At this point I would like to hand over the call to Mr. Patel for saying a note of thanks.
- Prayasvin B. Patel:** Thank you very much for taking interest in Elecon and I am sure with these results you would be pleased considering that there is still a recession which is continuing for a while. I wish that you have sustained interest in our company and going forward we are going to try our best to improve our results on a continuous basis. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Elecon Engineering Limited that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.