



“Elecon Engineering Company Limited Q2 FY16  
Earning Conference Call”

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ENGINEERING COMPANY LTD.  
MR. RAJAT JAIN – CFO, ELECON ENGINEERING  
COMPANY LTD.**

**MODERATOR: MR. ANKIT GUPTA – CHRISTENSEN**

**Moderator:** Ladies and gentlemen good day and welcome to the Elecon Engineering Company Limited Q2 FY 16 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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 Mr. Gupta.

**Ankit Gupta:** Welcome everyone and thanks for joining this Q2 FY 16 Earnings Call for Elecon Engineering Company Limited. We regret we had to reschedule this call for some reason. Now that people are in, so we are starting off with the call. Please note that the results have been mailed to you and you can view the same at the company's website [www.elecon.com](http://www.elecon.com). To take us through the results this quarters and to answer your queries we have with us today Mr. Prayasvin Patel – Chairman and Managing Director of the company 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 the 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 should be viewed in conjunction with uncertainties and risks that they face. These uncertainties and risks are not limited but included in the prospectus filed with SEBI and subsequent annual report which are also available on the website. With that said I will now turn the call over to Mr. Patel. Over to you sir.

**Prayasvin Patel:** Thank you Ankit. Good morning ladies & gentlemen. Warm welcome to our Q2 FY 2016 Earnings Call. I am happy to share that the Q2 performance for gear business was fairly decent with our margin profile improving significantly.

At the standalone level our revenue growth remained muted in Q2 with total operating revenues of Rs. 111.4 crores. The EBITDA stood at Rs. 27.7 crore registering an uptake of 44% over the same period in the previous year. The EBITDA margins improved by 858 basis points to 24.9%. During that period the net profit for standalone business stood at Rs. 6.9 crores as compared to Rs. 2.7 crores in corresponding period of the previous year registering an EBIT 156%. This is because of the management initiative to reduce cost and book selective orders with higher margins to improve the bottom line. Given that the momentum in the infrastructure activity is still to pick up there has been a drop in orders booked during the quarter. However, the outlook remains robust for execution in the coming quarters.

Coming to the consolidated financials of the Q2 FY16:

The operating revenues were Rs. 283.2 crores while we recorded an EBITDA Rs. 35.3 crores up by 41% over Q2 FY15. The EBITDA margin also has improved by 410 basis points to 12.5% over Q2 FY16 as against 8.4% in Q2 FY15. The consolidated profit after taxes stood at Rs. 1.4 crores for the Q2 FY16 as compared to a loss of Rs. 3 crores in the corresponding period of the previous year. We continue to encounter challenges in the material handling business with no significant order upside from the core sector customers. While we have orders in hand the

momentum of project execution at a customer level remains subdued. At the macro level the signs of economic revival especially from the RBI's rate cut and improving IIP data are giving us hope that the long term initiatives of the government coupled with the policy decisions will bring back the CAPEX activity thrust. We remain confident about our business. Thank you. We are happy to address your specific queries about the business.

**Moderator:** Thank you very. We will now begin with the question and answer session. The first question is from the line of Balchandra Shinde from Centrum Broking, please proceed.

**Balchandra Shinde:** Regarding subsidiary performance would like to know as we try to get an implied number on subsidiary overall though margins have improved would like to know in segment actually margins have improved in MHE or international gears.

**Prayasvin Patel:** The margins have improved in the Benzler-Radicon area, which is the gear business abroad and Mr. Rajat Jain will make you go through those figures so that you get an idea.

**Rajat Jain:** Basically the margins as already informed have improved in our Elecon domestic business as well as our overseas subsidiaries which is basically now PAT positive for last two quarters. So that has basically given us some benefits on the bottom line at a consolidated level.

**Balchandra Shinde:** Can you give the figures of MHE business and international gears along with sales and EBIT if possible?

**Prayasvin Patel:** Sales for Elecon EPC for Q2 '15 was basically Rs. 101 crores with a PAT of -12 crores. And for BNR Group the top line for Q2 2015-16 was Rs. 74 crores with a PAT of 1 crore.

**Balchandra Shinde:** Versus last year?

**Prayasvin Patel:** For the half year I have the numbers but the last year numbers for the Q2 I do not have as of now immediately. I have the annual numbers here. For half year also if you want Elecon EPC was Rs. 190 crores with a negative PAT of 20 crores and BNR was Rs. 150 crores, top line with a PAT of Rs. 6 crores.

**Balchandra Shinde:** And sir order book wise if you can give the breakup in MHE how much is the order book in international gears how much is the order book?

**Prayasvin Patel:** The order book for Elecon domestic business is Rs. 258 crores. For Elecon EPC is Rs. 1000 crores and for overseas subsidiaries is Rs. 60 crores as of 30<sup>th</sup> September, 2015.

**Balchandra Shinde:** And sir regarding mining activities, what kind of scenario you are witnessing? Are thinking improving on the mining activities because our order book on the EPC side has actually declined by around Rs. 150 crores so do we see that order book on the higher side from the start of the year by the end of the year?

**Prayasvin Patel:** I would put it this way that the mining activity especially in coal is going through an upsurge which is yet to get reflected in the order booking. Most of the coal blocks have now been given to the private parties. The open cast mining which is mining the coal on the surface is the area where Elecon would be involved and that is the area where we would see more inflow of orders coming through in the next 6 to 9 months. Also there are few other inquiries to get converted into orders. So it is just that the first six months practically very few tenders have opened and where we have been conservative enough to bid for prices which were reasonable but which had profits in mind and therefore our success rate has been poor but however we see an upsurge likely to happen in the next six months in the order inflow.

**Balchandra Shinde:** Sir because even on the execution front our execution was slightly lower would you eventually like to compare us with another peer actually reported resulted yesterday. But they reported a very good numbers on the project side for materials and handling equipment. Was it our execution slippages or it was a cautious movement towards the execution?

**Prayasvin Patel:** See it depends on your customers and the product mix that you have. Right now in the first two quarters we have landed in a situation where the customers are not lifting the finished products that we have and which is the reason why the invoicing has been less. However we are expected to do far-far better and reach probably 0-0 levels by the end of the year.

**Moderator:** Sorry to interrupt you Mr. Shinde. May I request you to come back in the queue for follow-up questions?

**Balchandra Shinde:** Sure.

**Moderator:** Ladies & gentlemen in order to ensure that the management is able to address questions from all participants we would request you to please limit your questions to two per participants. If time permits you can come back for a follow-up question. Thank you. The next question is from the line of Mitesh Shah from OHM Group. Please go ahead.

**Mitesh Shah:** Coming back to the international operation are we EBITDA positive on that because when I deduct consolidated transmission revenue of Rs. 190 crores which is showing of around Rs. 24 crores. When I compare it with standalone transmission revenues of Rs. 100 crores with an EBIT of Rs. 30 crores then it would be negative Rs. 6 crores. So am I missing something over here?

**Rajat Jain:** I do not know what arithmetic you are doing but overseas entity for the H1 FY16 is PAT positive. If PAT is positive then definitely we will have EBITDA positive.

**Mitesh Shah:** Any guidance on the EBITDA what currently it would be earning?

**Rajat Jain:** EBITDA somewhere is around 7-8% as of today.

**Mitesh Shah:** And so it will likely improve from here on the EBITDA front or we will actually maintain it?

- Rajat Jain:** For the year we should be able to maintain it.
- Moderator:** The next question is from the line of Chetan Vaidya from JHP Securities. Please go ahead.
- Chetan Vaidya:** Based on the performance for the first half what kind of outlook do you see for yourself for the year as a whole in terms of revenues and margins?
- Rajat Jain:** In terms of the guidance for the FY16 we feel that we should be having a 10% kind of a growth in our top line for the year at the consolidated level.
- Chetan Vaidya:** And sir margins?
- Rajat Jain:** Margins would be similar to what we have for this H1. So they will continue to be kind of similar. So we could end up with a blended EBITDA of around 22-23% for the year.
- Chetan Vaidya:** Now considering that in the material handling as you said you are seeing less of uptake so the kind of order that you will have in the gears business and the other activities do you think that those are good enough for you to reach a similar kind of margin even in second half?
- Rajat Jain:** Yes, the kind of orders we have in gear business and overseas entity we will be able to maintain our margins in the second half definitely. And in any case if our volumes pick up in material handling business so they will also start throwing in some better margins.
- Chetan Vaidya:** And sir lastly if you can just say the debt numbers and the repayment for this year?
- Rajat Jain:** Debt basically as of 30<sup>th</sup> September at the consolidate level is as of Rs. 632 crores and out of that Rs. 632 crores the term that is Rs. 254 crores and the balance Rs. 378 is our working capital.
- Chetan Vaidya:** And sir repayment schedule for FY16?
- Rajat Jain:** By the end of financial year 2016 we should be repaying around Rs. 50 crores.
- Moderator:** The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.
- Kaushal Shah:** What is the capacity utilization at which we operate in both in domestic operations and our overseas business and the second question is on the capital expenditure plan for this year?
- Prayashvin Patel:** The capacity utilization is approximately 45%. This is for the gear business and the CAPEX for the next 2 or 3 years is what we are looking at would be a negligible or an insignificant amount because we are only trying to do maintenance CAPEX. The company has tried to control the further capital expenditure so there are more margins coming in and the depreciation levels continue to reduce.
- Moderator:** The next question is from the line of Umesh Raut from Equirus Capital. Please go ahead.

**Umesh Raut:** My question is on top line growth. Actually if I see our consolidated top line growth for first half then it is around (-5%). So are we targeting more growth or are we seeing more growth coming in in second half of FY16?

**Prayasvin Patel:** Yes definitely for sure because as it is if you look at the history as well as the trend in the engineering industry the manufacturing activity normally picks up in the second half. And we have reasonable good orders on hand now which would help us increase our output in the next half which is the coming half after September.

**Umesh Raut:** So we are seeing higher growth coming in on MHE top line, right?

**Prayasvin Patel:** No, in both, in MHE as well as in gears.

**Umesh Raut:** And sir and on EBITDA front in this quarter do you get any benefit of softness in steel prices?

**Prayasvin Patel:** Not really because normally we try to even out the ups and downs in the steel procurement that we do. So we try to balance it out. I would say that as long as we are at 0-0 levels we would be happy.

**Umesh Raut:** And sir just a bookkeeping question, actually if I see your employee cost at standalone level then it has gone up by around 38% year on year. So I mean is there any one-off in there?

**Rajat Jain:** If you say in terms of clear percentage it basically is directly related to the top line also plus and this year we have announced basically some salary increases to the employees of across the board which we have not done last year, so that is also showing some increase over there in the cost. But by the year end this should kind of be up 200 basis points more than the last year's overall average.

**Moderator:** The next question is from the line of Milind Desai from Angel Broking. Please go ahead.

**Milind Desai:** Just a question on update with the Tecpro account where do we stand at and my another portion will be the breakup of the order books and what is the target in terms of additions for both the order books for this year?

**Prayasvin Patel:** As long as Tecpro account is concerned there has not been any major significant changes. However there are final customers of Tecpro who are directly trying to get in touch with us to finish the outstanding work which Tecpro has left halfway through. So those kinds of customers are approaching us and we are in continuous dialog and in that we also see a hope of recovery which could happen very fast. Apart from that the inflow of orders as we had said that in the first half we had less amount of inflow of orders both in material handling as well as in the gear business. However a reasonable amount of orders are likely to get finalized very shortly in material handling. And we are also expected to do reasonably well in gears as long as inflow of orders are concerned. There are good prospects in defense as well as regular gear boxes that we sell to the general industry also seems to be picking up to some extent.

- Milind Desai:** Which particular industry is showing the most traction?
- Prayasvin Patel:** Defense right now there are large amount of inquiries pending which should get finalized soon plus on the sugar area we have been seeing an upsurge which is come in. And over a period of time the other industries are showing a reasonable amount of upsurge.
- Milind Desai:** And about MHE order book what are the expectations like?
- Prayasvin Patel:** In MHE there are inquiries on hand which as I told you are likely to get finalized very soon and apart from the power sector the fertilizer also looks to be the area where we see a good amount of orders coming in.
- Milind Desai:** And about the timeline for that Tecpro or whatever the balance is in terms of retention money, like I know we will be getting it at sometime but what is the reasonable expectation a year down the line, two years down the line.
- Prayasvin Patel:** It is a constant process. It is very difficult to give you an answer on this. But we believe that in a year or two reasonable amount of clarity would come in because what is happening is the final customers are trying to approach us to tidy up whatever Tecpro has left halfway through which is also a good opportunity for us to recover our money that we are spending with Tecpro as well as do additional work. So that is happening but that is happening on a trickle down basis which is happening on a one-to-one basis I would say.
- Milind Desai:** Okay and any particular reason why the receivables have come down from console level?
- Prayasvin Patel:** basically the cash flow situation in the country as per se in the industry is very tight so we have been pushing for our receivable collections. So we have been able to collect around Rs. 20 crores in H1 from our stuck up or receivables in the EPC business in this H1 quarter. So secondly our focus on closing the sites and getting our retention money unlocked also happening simultaneously. So wherever we have been able to close the sites retention is getting released, so that is helping us to do the business, to reduce the receivables.
- Moderator:** The next question is from the line of Neerav Vasa from B&K Securities. Please go ahead.
- Neerav Vasa:** Sir my query pertains to the outstanding retention money that we have at this point of time and wanted to get some more color on it as to what percentage of that money would be pending for more than one year?
- Prayasvin Patel:** Today the retention money as of September 15 is somewhere around Rs. 275 crores. I am talking about MHE only. And majority of it is above one year. So these are all long gestation projects which take 3-4-5 years to complete. So that retention gets accumulated over the life cycle of the project. But as I just mentioned in the previous answer that we have recovered almost Rs. 20 crores out of that but what happens is that we have recovered Rs. 20 crores but we have done turnover of Rs. 200 crores so another Rs. 20 crores will get added. So the overall number does

not reduce but we have buckets between the aging keep on changing so that is there and we are targeting around Rs. 60-70 crores recovery in the old retention by the end of this financial year. 20 we have already done so may be another 40-50 crores should come in before March.

**Neerav Vasa:** So effectively if I understand the way we have given that you want to lower your debt by around Rs. 50 crores, so effectively as you get your old retention money your debtors would be reduced. Am I right in understanding that?

**Prayasvin Patel:** Yes, definitely.

**Neerav Vasa:** Second question, can you please help me what was the revenue that you had booked from the sale of spares in the second quarter?

**Prayasvin Patel:** Sale of spares basically contributes around 25-30% of our topline in gear business.

**Moderator:** The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

**Madan Gopal:** Sir first of all the margins in the MHE business, when would you start saying it is improving? Why is the business still struggling and if you can give some outlook on it?

**Prayasvin Patel:** See it is basically a question of supply and demand. Since there are less number of projects right now floating around. There is a need of most of the organizations in this business to try to back orders so that they can keep their wheels turning and therefore the margins are negligible. However we have a reasonable order inflow which has been booked up till now. So the backlog being healthy we have been a bit conservative in our bidding ensuring that whatever that we quote has reasonable amount of margins for us.

**Madan Gopal:** What are the backlogs?

**Rajat Jain:** For EPC is it 1000 crores.

**Prayasvin Patel:** And therefore the inflow of orders has been less in the first six months. However we see some reasonably attractive orders coming through in the next six months.

**Madan Gopal:** Secondly the first quarter was good, second quarter the profitability has sort of come off. You did something like 10% EBITDA margin if I am right in the first quarter. Second quarter it has come down to 7.5%. What are sustainable margins in this business?

**Rajat Jain:** Sometime to see coming for may be another 3 to 4 quarters in future we expect that to be around 7-8% EBITDA margin because you need to understand that is kind of a trading model as of today. It is not a manufacturing entity over there. So the margins in my opinion going forward should be 7-8% till the time European economy starts picks up and the pricing starts going up over there.

The selling price starts going up over there so then their growth margins should see an uptake in terms of the percentages.

**Madan Gopal:** Okay. And in case of the gear business the debt seems to have gone up, interest cost seems to have gone up in this quarter compared to last quarter. It has come out 9 crores. Any reason why it is or it is a temporary issue?

**Rajat Jain:** No it is a temporary issue because we have as of now replaced some short term debts with the long term debts so that way you can see some increasing because of that. And then it is interest rates so when the debt increases so your interest cost has gone up but it is a temporary issue. Hopefully by the end of the year we should see some numbers changing over there.

**Madan Gopal:** Sir you generate excellent EBITDA in this business, so can we factor in a situation of your debt completely getting negative in two years time?

**Rajat Jain:** No, I mean in any case we will need some working capital because EBITDA is there but then we need to have the working capital raw materials and all that stuff and payment terms are 90 days or 120 days so we need to have the raw material in hand so for that we will need definitely some working capital. And that will always be there but it will be mainly working capital debt not in term loans or CAPEX debt.

**Madan Gopal:** So you are not seeing it coming down, right?

**Rajat Jain:** No we are seeing it coming down but not getting nullified. You said negated so it will not be zero-zero but top line growth for my debt may remain at the same level. If my top line remains at the same level my debt may go down but not too extended where it comes down drastically.

**Madan Gopal:** My last question is our EBITDA margin in the gear business reduced in last year during the period we are talking about like September quarter and all, now it has improved and it has been the best that we have done in the past like 24-25%, some bit of mix that has helped us?

**Rajat Jain:** Yes, basically it was not that last year it reduced, last year was the standard we used to have, this year basically what we see is that; in the first half, our product mix, our sales mix has given us benefits in terms of better profitability because if you see my spare sale used to be around 20% but this year it is somewhere around 25-30%, so that is giving me additional benefit.

**Prayasvin Patel:** Apart from this, the company has also taken up cost cutting measures in the workshops and areas wherein we are able to save material cost by redesigning our products and so forth, which will also bring in additional profits and margins. So, those are also the areas that we have taken up, so it is a constant endeavor to improve the bottom line rather than only focus on the top line.

**Madan Gopal:** In the EPC business, you do not see turnaround happening in the second half, right? It should be probably based on orders and that should happen next year?

**Prayasvin Patel:** No, we are expected to do a larger turnover and bring down our costs, so that we do not have a negative at the end of the year.

**Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.

**Bhargav Buddhadev:** You highlighted headwinds in the MHE business, what could be couple of reasons from your customer point of view? Why are these headwinds, is it financing or is it off take challenges from SEBs? What could be the two main reasons for this headwind?

**Rajat Jain:** It is the combination of the two things as we said, finances tying up with the project finances for the customers and then cash inflows from the SEBs. Because there is no liquidity in the market, so the customers who are ready with the power projects, mines, who have taken allocation of the mines, they do not have money to start their projects. So that is what basically right now the problem is into that particular liquidity into that power sector, so that is the headwind basically which we are referring to.

**Bhargav Buddhadev:** And sir in your estimate, what could be the percentage of projects which are already under construction, especially in the power sector which could be stalled or extremely slow moving, any sense sir?

**Rajat Jain:** Today we see some activity happening, so they were stalled 2 years back but today some movements are there, so we do not see any slowdown happening or projects going on hold but because the policy's guidelines are coming in and there are statements from the government, 'Okay things are moving' so it will improve once the liquidity comes in, so there are some activities happened but now there is no liquidity to back it up. So once the liquidity comes in, so those things will get backed up, and I think going forward it should be better, instead of going on hold or projects getting stalled, they should improve once the liquidity comes into the market.

**Bhargav Buddhadev:** So, because BHEL has been highlighting that about 10% of their order backlog has been stalled so I thought I will just check with you. Are you seeing any slow moving projects in your order backlog of about Rs. 1000 crores in MHE?

**Rajat Jain:** No, as of now, no.

**Prayasvin Patel:** They are there, but they are negligible.

**Bhargav Buddhadev:** And sir, are you looking at taking up O&M for power plant similar to what other companies like Power Mech are looking at doing to basically diversify their business?

**Prayasvin Patel:** We are right now on the verge of making a strategy to move into areas which would give us more margins and which would be a model which we could sustain over a period of time and where we are definitely looking at servicing in a very big way. In the servicing business right now also, unlike our competitors; however, the style of servicing and the kind of projects that

we would take up in servicing would be a bit different from what we are doing today, which would further enhance to the top and the bottom line.

**Bhargav Buddhadev:** Is it fair to say margins in O&M business could be approximately 20-21%, is it fair to say that kind of a margin?

**Prayasvin Patel:** It would be very difficult to generalize because it would depend on case-to-case and what exactly in servicing that you would take up but I would say that the profits or margins would be reasonably healthy.

**Moderator:** Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

**Renu Baid:** I will be more broader, last time when we interacted you shared your plans on internationalizing the gears and the MHE, project business. So, how far are we on that plan and in what time frame you think we can achieve improvement in international and export market through the current business portfolio and thus increase utilization levels in India?

**Rajat Jain:** Renu basically if you see we had said that we currently our export contribution was around 5% to the top line and in H1 it has gone up to around 12%, 13%, so our focus which basically was there was there on exports, is showing us some results in terms of our top line growth. Top line growth in the sense, coming from for-exports, so our export contribution to the top line is improving and our focus is already there and now may be you can add something?

**Prayasvin Patel:** What is also happening is that while we are trying to increase our sales in different markets, because of the general overall scenario in the global environment, which is I would say very stagnant, we are finding it reasonably difficult to increase it drastically. But, there would be a continuous improvements which would keep on happening but not a very significant jump originally that we were expecting because we are finding that the markets abroad are saturated and they will remain in that condition for at least the next 2-3 years.

**Renu Baid:** And sir, my second question is, in the domestic environment you did mention that you expect relative improvement in order finalizations and gears also orders to come through. On the qualitative side if you can just elaborate which particular sectors apart from Sugar and Defense are showing some green shoots and what kind of projects are these? Are these normal maintenance kind of orders that you are getting through or certain small expansions by SMEs or otherwise? If you can just elaborate a little more with respect to the demand drivers in the domestic gear business on the industrial side?

**Prayasvin Patel:** Well I would say that the Power sectors, which has been our dominant area has been more or less stagnant, if that has not been showing an upsurge. Sugar as we said, Defense is an area there are other areas also which are going through a reasonable upsurge. One of them also being ports and shipping but it is very difficult to generalize because we see an upsurge coming in and then the next quarter they become reasonably stagnant. So it is very difficult to generalize as of now

but last quarter have been reasonably healthy but I cannot predict a trend because it is too early to be able to confidently say that this would go through an upsurge over a period of time.

**Renu Baid:** Right, but you still see that some of these hope of a gradual recovery across a broad aspect of the economy is still looking difficult or probably still a bit faraway?

**Prayasvin Patel:** I would say so, because the expectation from the market was that things would start going positively, reasonably fast. However, we see that at the grass root level, not much of improvements are being seen. However, at the macro level we are seeing changes happening which is giving us hope.

**Renu Baid:** You did mentioned that of a Rs. 1000 crore MHE orders, there were certain orders which were earlier stalled and now have started showing some traction? If it is possible for you to share what is the value of those orders which are now moving and earliest to moving and what could be the potential cost overruns or delays that can come against these projects?

**Prayasvin Patel:** Can we send you an email giving you this information?

**Moderator:** Thank you. The next question is form the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

**Sachin Kasera:** My query was you had mentioned in one of the previous queries that Defense is looking as a good area of opportunity, if you can elaborate a little bit, is it a one-time opportunity, what is the size of opportunity or is it more like a recurring opportunity every year?

**Prayasvin Patel:** I would say that the area where we are dominantly placed right now is the navy business. The Indian Navy has a very ambitious program which has now started materializing, we are right now executing a few orders which are for various shipyards and over a period of time we are seeing that there is a lot of inquiries which have come up, which are likely to get finalized over the next 6 months to a year which is giving us a very healthy outlook towards this area of business.

**Sachin Kasera:** But will you be able to quantify what is the size of this enquiries that are coming in the total bid that probably the opportunity size in terms of crores or something.

**Prayasvin Patel:** It would be difficult to say because it is on a perpetual basis, but I would say that; they have been cyclical in the past and this year we would see reasonable upsurge.

**Sachin Kasera:** And currently defense would be what; 2-3% of our revenue, Sir?

**Prayasvin Patel:** Approximately, but we feel that over a period of time it could jump to almost 5-10%.

- Sachin Kasera:** Sir, second question was; you were also indicating that you may look at bringing in some strategic partner in your material handling business, so is there any progress that has been made on this front?
- Prayasvin Patel:** It is a continuous endeavor; however, you have to understand that the chances of finding a partner would improve with an improvement in that sector. So, though we are looking at this. But the people or the organizations who would be interested in this are right now waiting and watching for the improvements to happen in the power sector before they jump in.
- Rajat Jain:** And there are some recessions happening at some levels, so things are moving but not at the pace which we would have expected them to move but they are moving, so hopefully we will be something better in 6 to 9 months from now.
- Sachin Kasera:** And Sir, in the May Investor Meet, you had given some vision for the Company for FY 2018, it has been around 6 months since then, do you believe that those numbers are still achievable or you would want to do some revision to those FY18 numbers that you have?
- Prayasvin Patel:** I would say that they are achievable provided the economy supports us. One was expecting that the improvement in the economy would have come in by this time. However, that has not happened up till now and as soon as that happens, I think still we have not missed the bus, there is always a chance that we can catch up.
- Sachin Kasera:** Just one last bookkeeping question; on the standalone front if we see there is an inventory that has moved up compared to the maximum almost I think Rs. 40-45 crores. Any specific reason for that or is it more of a seasonal phenomenon, it would come back to normal in March?
- Rajat Jain:** It will come back to normal by the end of March.
- Moderator:** Thank you. The next question is from the line of KS Batra from Accurate Equipment Mutual Funds Pvt. Ltd. Please go ahead.
- KS Batra:** Just wanted to understand; on our Associate and subsidiaries like Emco Elecon, I see results have been good but sales are on the lower side, can you throw some light on that?
- Prayasvin Patel:** Their major customer has been Coal India and it is just that the numbers of tenders that have come up this quarter have been reasonably flat or less and therefore this particular quarter has been kind of less in turnover for them.
- KS Batra:** What is the reason of improvement in margins in the second quarter? Have we supplied more space in that quarter?
- Prayasvin Patel:** See as I told you; it is a culmination of product mix, it is a culmination of cost reduction measures, redesigning of standard products and so forth, so it is a sum total of a lot of things.

- KS Batra:** Should we assume; second half we will be able to cover up sales in the Emco Elecon?
- Prayasvin Patel:** In Iron Emco Elecon, I would not be able to comment as of now, but in gears for sure.
- KS Batra:** Our subsidiary and associate company, which we acquired; are they helping us in export market and for export market; are we sourcing from India, those materials?
- Prayasvin Patel:** See, the contributions given by the foreign acquisition that we have made is reasonably high. They are not only helping us by exports which is helping us at the component levels but we are using their marketing resources also to bag orders in Europe and in various other countries and continents. And overall, we only now need to spread our wings to further areas so that we get additional benefits.
- KS Batra:** Just one more query; just wanted to know, what is the current contribution of defense and to what extent it will go up in future?
- Prayasvin Patel:** I just answered that, right now it is at negligible level of 2%, but it would go to (+10%).
- Moderator:** Thank you. The next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.
- Jagdish Bhanushali:** Wanted to understand; in the last call you had mentioned that we are in bidding process of few big orders in the MHE division; so wanted to understand how those orders or the bidding has moved for us? Has it gone against us or it has been in our favor till now, if we have any sense or you could throw some light on that?
- Prayasvin Patel:** Sure. I would say, that a couple of orders have gone or where we had bided but we did not get an opportunity to bag the order because considering that we had a reasonable healthy backlog of orders, we have not bid very aggressively. We have bid conservatively, so that we can improve our margins. There are few orders which are likely to get finalized reasonably soon and we are hopeful that we will bag them.
- Jagdish Bhanushali:** You just mentioned that in the H2 we hope to maintain the same margin, so are we confident to maintain the same margins as the H1 is, but if our revenues would be significantly higher than the H1 in the H2 part, so wanted to understand that when the margins be much higher than what currently we have reported about 12.5% or so?
- Prayasvin Patel:** See, what we are talking about is equal to or more than. So that means what we are saying very conservatively that at least we will be able to maintain those kinds of margins.
- Jagdish Bhanushali:** And employee expenses have been higher in this particular quarter, so do we see that moving up or this is a sustainable one of about Rs. 38.7 crores at the moment?

- Prayasvin Patel:** It has been an increase which has been booked in this quarter; however, by the end of the year, we are expected to be at the same levels as what we were last year in terms of percentages.
- Moderator:** Thank you. The next question is from the line of Balchandra Shinde from Centrum Broking. Please go ahead.
- Balchandra Shinde:** One question regarding the order book – as we know that in material handling our majority of the order book is through power sector and we do not see that kind of a CAPEX happening on the power sector. So whatever the mining activities are improving, do we expect it to compensate the power related orders or order book may see a decline because of the lower power CAPEX?
- Prayasvin Patel:** Naturally, we would be affected by the reduction in investments in the power sector. However, right now, we are hopeful on the mining side as well as on the fertilizer side and there are few orders which are likely to be further strengthened. So the situation with the shipping and port sector where we have got orders right now on hand and we are expecting that that would also get further enhanced.
- Balchandra Shinde:** But will it be able to compensate the power related orders?
- Prayasvin Patel:** I would not say completely, but I would say, that it would not make much of a difference. It would be on the percentages here or there but there will not be a major shortage or shortfall.
- Balchandra Shinde:** And will there be any change on the execution cycle or the execution cycle will stay more or less at the same level?
- Prayasvin Patel:** I would say the execution cycle would improve slightly. The reason being that the other sectors quite often have a much shorter cycle than the power sector.
- Moderator:** Thank you. The next question is from the line of Umesh Raut from Equirus Capital Private Limited. Please go ahead.
- Umesh Raut:** Just wanted to know the account receivable outstanding as on September '15 and what maybe the account receivables due for more than 6 months and less than 6 months?
- Rajat Jain:** The receivables at the consolidated levels are around Rs. 750 crores as of September '15. So out of that, Rs. 110 crores is in Elecon and Rs. 585 crores in EPC material handling, and around Rs. 60 crores in overseas entity.
- Umesh Raut:** And out of this Rs. 750 crores, how much would be due for more than 6 months, I mean, more than 180 days?
- Rajat Jain:** For Elecon and for overseas entity, more than 6 months is very negligible amount. Whatever is there, it is basically in EPC material handling and that is mainly due to the project life cycles we have. So project life cycles are 4-5 years, 3-5 years and we have on our books projects going on

for last 10 years. 2004, 2005 orders are still not completed because of the problem at the project sites. So that has resulted into money getting blocked in retentions, money getting blocked in non-payments, so that is the effect over there. Now, we see some projects moving ahead on towards the completion side, so once we start completing those projects, where we should be seeing some better numbers over there in terms of buckets of receivables.

**Moderator:** Thank you. The next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.

**Jagdish Bhanushali:** Just seeing that, our net debt has increased compared to March, so wanted to understand, because of the revenues have not increased in the same quantum, so wanted to understand; why would that net debt increase be? Is it one off and do we see that even in Q4, the end of Q4 by the year, do we see an increase in net debt as well?

**Rajat Jain:** If you remember, we just answered in one of the previous questions that debt has increased because we have replaced some short term debt with the long term debt. Plus we are planning in our overall target to, for the year end is to reduce the debt by around Rs. 50 crores as compared to the last year.

**Moderator:** Thank you. The next question is from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

**Dhananjay Mishra:** What is your outlook on windmill gear business, given the current government is focusing more on renewal side of source of energy which includes solar and wind, so do you see any investment happening and that would probably revive our business, that includes windmill and I would like you to comment here?

**Prayasvin Patel:** We are developing a few prototypes for Windmill companies and as such it will take a while for us to get into regular production for these prototypes but that is happening and depending upon how the wind industry develops in the next 2 to 5 years, our products would find a place into their windmill. We all depend on the future of this industry.

**Dhananjay Mishra:** So do you see a significant investment in this side of business, in near term or probably people are investing or are keen to invest in this wind mill source of this thing?

**Prayasvin Patel:** See, normally what happens is this industry is normally driven by the government in all the countries of the world because it is all backed up by subsidies. Now, it depends on how attractive these subsidies over a period of time are being given, so it will all depend on that. But however, the trend is towards people trying to reduce the pollution levels and therefore the alternative energies will definitely improve their businesses, so the companies who are into this business will definitely improve their prospects. So I am hopeful that this industry would pick up.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Ankit Gupta for closing comments.

**Ankit Gupta:** Thanks a lot everyone for joining this call. I would recommend in case you have some specific questions that are left unaddressed, you can write in to me at [ankitgupta@christensenir.com](mailto:ankitgupta@christensenir.com) and we will be happy to get back to you on that. I would now request Mr. Patel for his quick closing comments.

**Prayasvin Patel:** Well, I believe that we are seeing some macro level changes and improvements in the economy and I hope that that would in the future bring down the recession and there would be an upsurge that would come through in probably the next year, after March. So, one is hopeful that things would further improve. However, our company is taking all the measures to cut down their cost and to be ready for an upsurge in demand and with capacity utilization which is round about 40% to 50% we are poised for growth and we continue to endeavor to improve our margins. So with that, I would like to say that one is hoping for things to improve and I wish that the overall economy supports our company to further improve our performance. Thank you.

**Moderator:** Thank you. On behalf of Elecon Engineering Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.