



“Elecon Engineering Company Ltd. Q3 FY-16 Earnings Conference Call”

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**MANAGEMENT: MR. PRAYASVIN B. PATEL – CHAIRMAN & MD,
ELECON ENGINEERING COMPANY LTD.
MR. RAJAT JAIN – CFO, ELECON ENGINEERING
COMPANY LTD.**

MODERATOR: MR. DIWAKAR PINGLE – CHRISTENSEN

Moderator: Ladies and gentlemen, good day and welcome to the Elecon Engineering Company Ltd. Q3 and nine month 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 ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle from Christensen. Thank you and over to you sir.

Diwakar Pingle: Thank you Saeed and welcome everyone and thanks for joining this Q3 FY 16 earnings call for Elecon Engineering Company Ltd. Please note that the results have been mailed to you last week and you can also view them at the company’s website; www.elecon.com.

To take us through the results of this quarter and answer your questions, we have with us today Mr. Prayasvin B Patel – Chairman and Managing Director and Mr. Rajat Jain, who is the CFO. We will be starting the call with a brief overview of the company’s performance, which will then be followed by Q&A session.

I would like to remind you that everything said in this call that reflects any outlook for the future or which can be construed for the forward looking statement, must be reviewed in conjunction with uncertainties and risks that we face. These uncertainties and risks are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual reports which you can find on the website. With that said, I now turn the call over to Mr. Patel, over to you sir.

Prayasvin B Patel: Thank you, good evening ladies and gentlemen, again warm welcome to our Q3 FY 2016 Earnings call. Discussing the results at the standalone level, we had a relatively challenging quarter from a margin’s standpoint. While our top line grew at 8% quarter on quarter, the EBITDA levels came down on account of unfavorable revenue mix involving bulk of the shipments of low margins. The contribution of after sales business in the overall sales has fallen down this quarter and thereby we had to take a hit on the margins. We witnessed a lack luster demand from key sectors such as cement and steel; however, we managed to book Rs. 121 crores worth of orders in domestic Gear business during the quarter. Our end customers continue to grapple with execution challenges and the environment remains challenging in the medium to short term. At the PAT level, we registered a record high profit of Rs. 17.1 crores, this also factors the profits from the sale of surplus land. Our consolidated entity registered a top line growth of 17% quarter on quarter, essentially on the account of performance in EPC and overseas business. The EPC business; however, remains sluggish owing to macro factors which we believe would be taken care of, by the government’s ongoing measures across sectors. We are also seeing traction in some sectors; especially defense. To sum up, we are hopeful that our business would sooner than later reap the benefits of economic upturn. We remain upbeat on the long term business outlook of the company. Given the current global economic scenario, we understand that the government has a very hard task at hand. Thank you.

We are happy to address your specific queries about the business.

- Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Chetan Vaidya from JHP Securities, please proceed.
- Chetan Vaidya:** Sir my question is on both; on the material handling as well as the Gear business, you say in your opening remark; in that press release that you remain upbeat on the long term outlook for the company and also what do you think is driver revenue for FY17?
- Prayasvin B Patel:** Well as I mentioned in my introduction that, the marine business (Defense) seems to be very promising. This is where we expect more orders in the future. The sugar sector is also promising, partially the cement.
- Chetan Vaidya:** Okay, so if I can ask you a little specific; what are the events or triggers that will drive the demand in the sugar and the cement sector for you?
- Prayasvin B Patel:** For Sugar, there are exports, which would be driving the sales further. Although the overall cement industry per say is not doing good, but there are requirements in the cement industry for modifications and minor enhancements, which are now coming frequently from various cement plants. They are trying to optimize their performance and therefore they are making changes in their layouts and spending amounts for their capital investment.
- Chetan Vaidya:** If I may just squeeze in one more question; can you provide some kind of an outlook for the same, with respect to revenue and if I may ask, what is the current L1 position for, with the company?
- Rajat Jain:** No, see for Gear business, basically it is not a project business but more of a one to one business with the OEM. So there is no question of L1 being there, it is not tender based business.
- Chetan Vaidya:** And for material handlings?
- Rajat Jain:** For Material handling we are bidding on projects very selectively based on the profitability factor, so we are there in very few projects where we are L1 but it will depend upon how the final pricing negotiations happen based on the terms and conditions what we have in our hand. Basically being L1 at various places, we may not be able to disclose it on the call. We have some orders which are under negotiations, we have some tenders where we have bid and we are L1, so we are waiting for the final orders before the terms can be finalized for acceptance, of the same.
- Chetan Vaidya:** Just to continue with that, so based on orders that you have in hand and these orders that you have bid for, so are you in a position to give some kind of an outlook for FY17 in terms of revenue and margins?

- Rajat Jain:** The top line growth in Gear business is expected between 8% to 10% for FY17 and this year we are expecting somewhere around 5% to 8% growth on FY15. So FY17, maybe we see a 8% to 10% growth. We surely see a top line growth as compared to last year, this year and next year also but percentages would come once we have closed these orders where we are negotiating and what kind of orders we get and what are their execution cycles. So that will shape our top line for FY17.
- Chetan Vaidya:** And finally, what is the current gross debt and the cash in hand?
- Rajat Jain:** The gross debt at the consolidated level is somewhere around **Rs. 600 crores**.
- Chetan Vaidya:** And cash on hand and cost of debt?
- Rajat Jain:** The cost of debt is averaging around 12%- 12.25%. I readily do not have cash on hand for the group as a whole.
- Moderator:** Thank you. The next question is from the line of Umesh Raut from Equirus Securities, please proceed.
- Umesh Raut:** Sir could you please give me revenue, EBITDA and PAT number for Elecon EPC(MHE) and Benzlers and Radicon(BR) business?
- Rajat Jain:** Yes, sure, revenue for the nine months ended for MHE business was Rs. 305 crores and EBITDA was Rs. -12.8 crores. For BR group, the total revenue for nine months ended was Rs. 227 crores with an EBITDA of 21.8.
- Umesh Raut:** And sir, PAT for both the entities?
- Rajat Jain:** PAT for BR was 7.17 crores and for material handling had a loss of ~40 crores
- Umesh Raut:** On standalone margin front, if I am not wrong, as on FY15, our after sales revenue was 20% of total sales, so how is it placed for the third quarter?
- Rajat Jain:** In the Q3FY16, if you notice, our gross margins of EBITDA levels have dropped because of drop in the after sales business. Third quarter per say was not 20%, it was lesser than that. But it was for some different reasons, we could not dispatch because of the non-availability of dispatch instructions or some issues at the customers' end. So in the fourth quarter, we should definitely see the improvement in our dispatches to the after sales. So we expect this year to close somewhere around 25% contribution from after sales, that is overall top line.
- Umesh Raut:** So in last quarter, you expect more of a sales coming in from after sales business, right?
- Rajat Jain:** In terms of percentage, it should improve over the last year. Last year we did 20% , we should be able to do 25% this fiscal.

- Umesh Raut:** And Sir, what are the account receivables levels as on December 15?
- Rajat Jain:** All the three companies put together, the receivables were Rs. **775 crores as on 31st December 2015.**
- Umesh Raut:** So, I mean for MHE business, how is this placed?
- Rajat Jain:** For MHE, it is Rs. 608 crores, for BR it is Rs. 60 crores and for Elecon it is Rs. 105 crores. These are round numbers, in fractions there could be a difference.
- Umesh Raut:** Sure, what is the status regarding payment pending from the Tech Pro.?
- Rajat Jain:** There is no change in the status because it is still continuing and the negotiations are happening with the end customers.
- Moderator:** Thank you. The next question is from the line of Jagdish Bhanushali from FlorinTree Advisors. Please proceed.
- Jagdish Bhanushali:** I wanted to understand; if Q4 will be at similar levels or more than what we had reported in Q4 FY15 on the standalone front?
- Rajat Jain:** No difference. If you want to compare quarter on quarter for last, quarter 4 we believe that this year should be better than last year.
- Jagdish Bhanushali:** For Q4 in terms of revenue, right?
- Rajat Jain:** In terms of revenue and profitability, it should be better than last year.
- Jagdish Bhanushali:** Okay and is that the simple reason of increase in inventories that we have been piling upon our books, or so?
- Rajat Jain:** Yes, because we have some orders which could not be dispatched, which were ready to be dispatched and then there are some lots, orders are in lots, maybe 15-20-25 Gear boxes to be dispatched in one go, so that should be going out in quarter 4.
- Jagdish Bhanushali:** Okay and in spite of the higher revenue that we have, we are looking at higher services revenue as well.
- Rajat Jain:** Yes.
- Jagdish Bhanushali:** So this order what you are saying in terms of inventory is not part of the services revenue, right?
- Rajat Jain:** No, there is some portion of that, maybe small portion but their inventory is still there for services also but overall it is very small percentage.

- Jagdish Bhanushali:** Okay and if I may have missed, could I get the order book in our MHE division?
- Rajat Jain:** MHE division contribution as of 31st December Rs. 922 crores.
- Jagdish Bhanushali:** Okay, in the Benzlers-Radicon?
- Rajat Jain:** Benzlers-Radicon is Rs. 60 crores.
- Jagdish Bhanushali:** And out of those Rs. 922 crores, could we get a split, how much would be in EPC?
- Rajat Jain:** As of now, the order book we are not splitting based on manufacturing orders or EPC orders, but orders under execution and maybe somewhere around Rs. 300 crores from EPC and balance from products.
- Jagdish Bhanushali:** And do we see the mix changing from here on?
- Rajat Jain:** Yes.
- Jagdish Bhanushali:** So, that is more of products or more of EPC coming to us?
- Rajat Jain:** More of products will be coming to us.
- Jagdish Bhanushali:** And could I get some sense of what was the revenues that we had, like same sort of an order book a year back, in terms of breakup of EPC and MHE products?
- Rajat Jain:** See for March FY15, the top line in MHE around 20% was contributed from EPC business and 80% came from Products. We think that that same ratio should be maintained for this year and going forward, EPC business will go down and Product business will keep on increasing.
- Moderator:** Thank you. The next question is from the Dhananjay Mishra from Sunidhi Securities. Please proceed.
- Dhananjay Mishra:** Sir just one question, was there any order inflow in MHE division, this quarter?
- Rajat Jain:** There were some orders booked, somewhere around Rs. 40-50 crores in this quarter in MHE and there are some orders which are under negotiation and we are expecting in this Q4. Around Rs. 100 crores orders are under negotiation, so we are expecting them to finalize in this quarter.
- Dhananjay Mishra:** And which sector it is from?
- Rajat Jain:** There are various sectors involved over there, so it is mainly, it is all OEMs.
- Dhananjay Mishra:** All OEMs, not a specific sector?

Moderator: Thank you. Our next question is from the line of Milan Desai from Angel Broking. Please proceed.

Milan Desai: My question is in regards to the sale of land; can you just provide some more information on that and what is the total value that you are getting and I understand Rs. 21 crores is just the profits, so would like to?

Rajat Jain: Milan, this land basically was a surplus land which Elecon owned and it was on a long term lease to our resort (Madhubhan), so this land was being used by them and it was on a long term lease of 29 years which basically was not usable to Elecon, so we decided to sell this land because any which ways we cannot use it and we do not need it in our very near future business purposes. So, we sold to the owners of Madhubhan and the total realization was Rs. 25 crores, out of which Rs. 21.6 crores was my capital gain.

Milan Desai: Okay and as far as EPC, I believe for the current quarter was quite hefty, right?

Rajat Jain: That was Rs. 19.5 crores.

Milan Desai: Okay so any guidance because I understand 4th quarter is the best for EPC, so what is the profit figure that we can estimate, just on a broader terms?

Rajat Jain: For the financial year 16, EPC I do not think will be ending the year with a profit, but we are trying to minimize the losses and we may be somewhere near a breakeven kind of a situation. But it will depend upon how the customers react in this quarter 4, because we have lot of orders which are under execution but then customers are not picking up the material, so it will depend how it goes ahead and take shape in the quarter 4.

Milan Desai: So, like no replication from 4Q FY15, so bulk of the profits was on the last quarter, so that is what led to the...

Rajat Jain: No, I am saying, there will be profits but then last quarter it will be definitely a profitable quarter but how much we will be able to minimize the 9 months' losses that basically will depend upon what kind of turnover we are able to achieve. So, the higher the turnover, better the profits because we cover our overheads, so with fix overheads get covered, so it will be resulting in better profits but how much will be, whether we will be able to ending or we will be able to end the year with a breakeven or not, as of now it is a bit difficult for me to commit on that.

Moderator: Thank you. The next question is from the line of Karan Rathod from Batlivala & Karani Securities. Please proceed.

Karan Rathod: Just wanted to have further details about the land sales, how much area has been gone and do we have more land parcels that can be sold?

- Rajat Jain:** I do not have details on area, but Company has a land parcel. The Company is using it and it will depend how the industry behaves, how much we need for our future expansion. So based on that we will decide whether we need to retain that land or if we want to part away with it, we can part away with it but will depend on how the future growth happens, maybe 5, 10 years from now.
- Karan Rathod:** And sir on the order inflows; I believe it is Rs. 121 crores, so what has been the margin profile?
- Rajat Jain:** Now see, margin profile is a mix of various kinds of businesses we are into, so we have a catalogue based and we have an Engineer product and we have after sales; all three of them have different margins. Even in Engineer product; the Navy business and other Planetary Gear boxes have different margins. So order book, we do not track based on our margins. Basically, it is our invoicing which we track and based on our margins.
- Karan Rathod:** Sir, I wanted to have a perspective of how are our competitors ready to bring down their margins, just to bag orders?
- Rajat Jain:** That may be, competitor will be able to tell you better because I cannot comment on their behalf, what kind of it, and they would be ready to take. We basically, as a principle, do not go down on our prices to bag an order. If we want to do that, maybe my competition would have been out of business by today.
- Moderator:** Thank you. The next question is from the line of K S Batra from Accurate Equipments. Please proceed.
- K S Batra:** Just wanted to understand, how is the business situation with the Coal India, are we seeing some improvement in our intake of orders from there?
- Rajat Jain:** No Mr. Batra, we do not have Coal India as a customer in Elecon or in MHE, one of our group companies; Eimco Elecon does the....
- K S Batra:** No, material handling equipments, I am saying.
- Rajat Jain:** Material handling also, Coal India is basically doing mining and they take out the coal from underground mines, MHE is not there in that business.
- K S Batra:** Okay, how is the intake of orders for sugar industry I mean?
- Rajat Jain:** Sugar industry basically is moving towards some replacements in terms of enhancements and efficiency improvements. So order book is better and we are seeing some good orders coming in from sugar industry and then another growth is coming because of the exports which sugar industry is doing, so they are enhancing capacities and they are improving their efficiencies. That is giving us some good orders from sugar industry.

- K S Batra:** Are we seeing some kind of improvement at the ground level in the industry for our type of business?
- Rajat Jain:** As of now, we do not see anything concrete but the policies are coming in and the Government is taking some initiatives, so maybe 2, 3 quarters from now we should see some improvements. As of today, we do not see anything.
- K S Batra:** Are we going to see some kind of benefit from the implementation of 'UDAY Scheme' in future?
- Rajat Jain:** Yes 'Uday Scheme' should definitely help our MHE division and there would be a sideline if benefit in Gear division also, in Elecon also. They once get rolled out and implemented, so definitely we should see some better numbers in material handling.
- K S Batra:** How hopeful are we about the implementation of 'UDAY Scheme' because I think if I am not mistaking, this is the third attempt from last so many years to get it through?
- Rajat Jain:** No, see this being the third attempt but basically this is the first time that almost 20 States have signed it, that time no one had signed it. So we are hopeful that this time it will get implemented.
- Moderator:** Thank you. The next question is from the line of Nitin Gandhi from KIFS Securities. Please proceed.
- Nitin Gandhi:** Just one small data point; EPC you said for 9-month is a Rs. 19.5 crores loss, what was the comparable fees for FY15?
- Rajat Jain:** Nine months' loss, nine months ended loss is Rs. 40 crores; Rs. 19.5 crores is for Q3, so last year comparative was Rs. 17 crores loss for nine months.
- Nitin Gandhi:** That was for nine months; Rs. 17 crores as against Rs. 40 crores in current.
- Moderator:** Thank you. Our next question is a follow up question from the line of Milan Desai from Angel Broking. Please proceed.
- Milan Desai:** I did not have the EBIT numbers in terms of consolidated break up, so if you can just provide that for MHE and Benzlers.
- Rajat Jain:** I will repeat it; basically I just gave it in the call earlier also. EBITDA for nine months ended for MHE is Rs. (-12.8) crores and for BR group is Rs. 21.86 crores.
- Milan Desai:** This is EBIT level right?
- Rajat Jain:** No, this is EBITDA.

- Milan Desai:** Okay, so I was specifically looking for EBIT level.
- Rajat Jain:** EBIT, I will have to do the working, maybe I will send you a mail across afterwards.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Patel for closing remarks, over to you Sir.
- Prayasvin B Patel:** Though the industry per se seems to be recovering at a very slow rate, the company is hopeful that the positive changes that the government is making, will result in a long-term upturn in economy and the company is looking forward to it. The company as said in the past has already taken steps on improving its margins in operations so that the benefits would be substantial going forward when the upturn in economy happens. So your company is doing its very best to improve its operations and performance on a quarter-to-quarter long-term basis. With this, I conclude this session, thank you.
- Moderator:** Thank you very much members of management. Ladies and Gentlemen, on behalf of Elecon Engineering, that concludes today's conference call. Thank you all for joining us and you may disconnect your lines.