



“Elecon Engineering Company Limited Q2 FY-19
Earnings Conference Call”

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ENGINEERING
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Moderator: Ladies and gentlemen good day and welcome to the Elecon Engineering Company Limited Q2 FY19 Earning 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 an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sarda from Christensen IR. Thank you and over to you sir.

Binay Sarda: Thanks Inba. Good evening to all the participants on the call and thanks for joining this Q2 FY2019 Earnings Call for Elecon Engineering. Please note that we have mailed across the press release to everyone and you can also see the results on our website as well as it has been uploaded in the stock exchanges. In case if you have not received the same you can write to us and we will be happy to send this over to you.

Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties and other factors. It must be viewed in conjunction with our business risk that could cause the future result performance or achievement to differ significantly from what is expressed or implied by such forward-looking statements.

To take us through the results of this quarter and answer your questions we have with us the management of Elecon Engineering represented by Mr. Prayasvin Patel – CMD, and Mr. Kamlesh Shah – CFO. Mr. Prayasvin Patel will give a brief overview of the quarter gone past and then we will open the floor for Q&A session.

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

Prayasvin Patel: Thank you Binay. Good evening ladies and gentlemen, a very warm welcome to our Q2 FY 2019 Conference Call. At the stand-alone level we have had a relatively healthy quarter with both Gear business and MHE reporting good performance. During the quarter the total operating income grew by 45.7% year-on-year to Rs. 259.7 crores from Rs. 178.3 crores in the corresponding quarter of the previous year. The EBITDA on absolute basis stood at Rs. 32.7 crores as compared to Rs. 22.6 crores during the corresponding period of the previous year. This translates to EBITDA margin of 12.6% in Q2 FY19. We closed this quarter with a PBT of Rs. 7.8 crores as compared to a loss of Rs. 4.2 crores during the corresponding period of the previous year.

Let me highlight a few points related to the results:

One of the key focus areas of the management has been to improve collections and we are delighted to inform you that the quarter ended September '18 saw a marked improvement over March '18 quarter. The receivables management initiative has been identified as top priority and I'm confident that our sustained efforts will see results going forward. The spike in other

financial assets and other financial liabilities are due to provisions of income as well as expenses under specific accounting guidelines.

Now coming to the consolidated financials of Q2 FY19; the operating revenues were 320.8 crores while we recorded an EBITDA of 81.9 crores up by 250.9 % over Q2 FY18. The EBITDA margin has improved to 25.5% in Q2 FY19 as against 9.3% in Q2 FY18. The consolidated PBT stood at Rs. 54.2 crores for Q2 FY19 as compared to a loss of 7.1 crores in the corresponding period of the previous year. It has to be noted that the increase in revenue and EBITDA margin were due to one-time other income of 36.92 crores which was realized on the sale of immovable property by an overseas subsidiary. The proceeds from the one-time sale would be utilized for repayment of debt and working capital. We are seeing gradual pickup in demand on the back of recovery in economy and we saw a significant ramp up in the order booking with orders worth 134.2 crores booked in the Gear business and orders worth 39.44 crores in the Material Handling Business. This translates to an order booking of 738.97 crores for the Gear business and 475.62 crores for the MHE business for execution in the remaining part of the year.

Our overseas business Benzlers and Radicon registered a revenue of 68.80 crores with an EBITDA of Rs. 21.96 crores.

Now coming to the other important developments; it is proposed to merge Elecon Transmission International Limited ETIL Mauritius with Elecon Engineering Company Limited India as part of the restructuring process. Also it is proposed to issue NCDs upto 150 crores as part of effective debt management. However there will not be any increase in the overall debt of the company due to the proposed NCD issuance. We are seeing gradual improvement in the economic activity and the manufacturing sector and overall demand scenario looks encouraging. We have been concentrating on reduction of debt which is evident from the Material reduction of around 75 crores in borrowings on a standalone basis and 77 crores on a consolidated basis in September '18 as compared to March '18 and a plan to reduce debt further through restructuring. This is reflected in our net debt to equity which has gradually been coming down.

To summarize; we continue to focus on strategies to create long-term value for shareholders. This includes paring down debt to manageable levels, change in business strategy towards a product-based business as well as streamlining existing operations, high emphasis on recovery of receivables which we are happy to announce is on track and the results are there for you to see.

And lastly there are no immediate plans to raise any equity at this moment as well as spend money on CAPEX. We believe that our debt restructuring and business mix strategy will give us the desired results. We are confident that the performance will continue to improve in the future looking at the revival in demand scenario and on back of strong execution and favorable product mix. Thank you all we will be happy to address your specific queries about the business going forward. Thank you.

- Moderator:** Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. Our first question is from the line of Kritika Garg from Equitas Investment. Please go ahead.
- Kritika Garg:** I wanted to know if the MHE segment got any orders on the revamping of plants from the Maharashtra and Gujarat government?
- Prayasvin Patel:** For the revamping of orders we have been continuously pursuing things with the Maharashtra government that is with the Maharashtra Electricity Boards and we have been getting small-small projects coming through. There are still pending inquiries which are there with them and which should get finalized in a short period of time.
- Kritika Garg:** And we were looking at venturing into FGD?
- Prayasvin Patel:** Can you repeat this?
- Kritika Garg:** I was referring to Flue Gas Desulphurization segment for MHE. In our report it was mentioned.
- Prayasvin Patel:** We have not yet crystallized on it as yet. However we are looking at it.
- Kritika Garg:** And what is the other income of 9 crores in standalone?
- Kamlesh Shah:** This 9 crores other income standalone on the settlement with the party which is to the tune of nearly 6.95 crores.
- Kritika Garg:** Do we have any MTM gains or losses?
- Kamlesh Shah:** MTM gain on?
- Kritika Garg:** Any exports that we have done and what were our exports for the quarter?
- Kamlesh Shah:** We have not booked any forward so there is no MTM gain or loss.
- Kritika Garg:** What were our exports for the quarter?
- Kamlesh Shah:** For the quarter it is 11.15 crores.
- Kritika Garg:** How much do we plan to do of exports for FY19? I believe we have given the guidance of 100 crores; do we plan to meet that?
- Kamlesh Shah:** We are on the track. For the half year we reached 28 crores and we are on the plan because this will come up in next 2 quarters and half yearly results, we are hopeful we will reach to the target.

Kritika Garg: And margins for exports are better?

Kamlesh Shah: Yes naturally.

Kritika Garg: And how our UK and US subsidiaries doing?

Kamlesh Shah: They are doing well and all are in the profit presently in UK and US in this year till H1 we are having loss but it will reduce substantially compared to the same period in the last year.

Kritika Garg: So could we have the figures for Q2 for UK and US?

Kamlesh Shah: Can we e-mail it to you?

Kritika Garg: Okay and do we expect US to be EBITDA positive this year?

Prayasvin Patel: We have changed our strategy going forward in the US thereby we have been able to reduce our losses in the first half of this year compared to last year and we are trying our utmost to be at the 0-0 level by the end of the year.

Kritika Garg: On a PAT basis?

Prayasvin Patel: There is a possibility that we may be slightly negative by the end of the year.

Kritika Garg: And UK?

Prayasvin Patel: UK we are positive right from the beginning. We were positive last year. This year also we are positive. The exact figures will be shared by Kamlesh Shah.

Kamlesh Shah: Radicon UK we had a profit, EBITDA of 7,50,000 GBP and US we are having negative EBITDA of US\$5,40,000.

Kritika Garg: So how much do you think that the subsidiaries will contribute to my PAT in FY19?

Kamlesh Shah: For the whole year you're talking about?

Kritika Garg: Yeah. Excluding the one-time gain.

Kamlesh Shah: In Quarter 2 it contributed nearly 13 crores in terms of the PBT level for subsidiaries in terms of Indian rupee.

Kritika Garg: But this is UK plus US?

Kamlesh Shah: Yes everything.

Kritika Garg: And this includes my 37 crores of one-time sale?

- Kamlesh Shah:** Yeah this is excluding that, if I'm including that to 37 we have to add further.
- Kritika Garg:** Okay excluding the one-time gain.
- Moderator:** The next question is from the line of Kritika Garg from Equitas Investment. Please go ahead.
- Kritika Garg:** I wanted to know the rationale for the merger.
- Kamlesh Shah:** Rationale for merger is to just reduce the overall administrative and presently it doesn't add any value over there by keeping separate company in Mauritius. We are trying to merge this so this will improve overall operations and complete control and also reduce my administrative efforts and cost both.
- Kritika Garg:** How much impact do you think that will have on my consol?
- Prayasvin Patel:** It won't have any impact because it is 100% subsidiary it won't have any impact upon my finances.
- Kritika Garg:** And any tax benefits?
- Prayasvin Patel:** Not much.
- Kritika Garg:** Like in overseas subsidiaries you're not paying any taxes because of our accumulated losses?
- Kamlesh Shah:** Only accumulative losses are there.
- Kritika Garg:** Do we have substantial accumulated losses for going forward?
- Kamlesh Shah:** if this level of operation continues, so over the period of 2 years I will have benefit available to me. The operation level continues now so it is doing well. We are hopeful that within 2 years time we will avail the benefit of drop of losses at the overseas level.
- Kritika Garg:** So basically it is 150 crores of NCDs that we are raising is basically refinancing of that?
- Kamlesh Shah:** Yes, it is the refinancing of debt and increase my effective debt.
- Kritika Garg:** Also, actually if I look at it on a PBT, EBITDA level, if I exclude my other income on a standalone basis basically my EBITDA matches my depreciation plus my interest.
- Kamlesh Shah:** There are other non-cash expenses are also there.
- Kritika Garg:** Which are?
- Kamlesh Shah:** For example we had a provision also.

Kritika Garg: In other expenses?

Kamlesh Shah: Other expenses.

Kritika Garg: How much is the provision amount?

Kamlesh Shah: That is nearly 3.5 crores.

Kritika Garg: And what is this regarding those 2 loss making projects?

Kamlesh Shah: No that's not 2 loss making projects but it is regarding certain conservative process for the accounting it is there.

Kritika Garg: But what it is pertaining to like is it bad debt.

Kamlesh Shah: It is provision only, provision for bad debt as a part of ECL (expected credit loss), that is why the profits are there under Ind-AS so we have to provide for that.

Kritika Garg: And those 2 projects which we were supposed to complete by Q3 FY19, are we on track to complete them by this quarter?

Kamlesh Shah: One project yes we are in the process to complete by year end and one project which may get extended by June '19 because of we have cleared 5 clearances from the customer.

Kritika Garg: So they are going to complete it by March '19, one project?

Kamlesh Shah: Yes.

Kritika Garg: And the other one by June '19?

Kamlesh Shah: June 19.

Kritika Garg: And what is the status on the Marine order?

Kamlesh Shah: Marine order we are positive, we are having the state your delivery in the month of February.

Kritika Garg: So that will be the entire order would be executed?

Kamlesh Shah: Not entire, out of 758 as per the schedule 168 is to be delivered in the month of May. But we are preponing this in the month of February.

Kritika Garg: So out of 750, 160 we will be doing by Feb?

Kamlesh Shah: No, 75 crores.

- Kritika Garg:** So 10% of the order?
- Kamlesh Shah:** Not 10, our total value is of 530 crores, out of that 75 crores we are executing in this.
- Kritika Garg:** Like you have given the guidance that in transmission we will do 600 crores of revenue which looks pretty doable because I think in the first half we have already done over 300. We have done like 315 crores and so do we expect to maintain these margins of 15%?
- Kamlesh Shah:** Yes we are because my order book position sits about there.
- Kritika Garg:** But our order book quarter on quarter has dipped a little bit - inflow of orders?
- Kamlesh Shah:** Certain orders, these are the orders which are the key orders so while the other orders like my maintenance and the CSD what we call it - customer support, those are not covered.
- Kritika Garg:** Could you tell us about how the power industry is doing, whether we're getting orders from there and reach other industries you're getting order flow currently?
- Kamlesh Shah:** We are getting the orders from steel, we are getting the orders from cement, we are also getting the orders from fertilizer companies also. And there are others from power sector also we are getting the order flow. Presently—we got an order if you see this half year—we got an order from NTPC. We have also have order from the cement company like Sanghi Cement like this.
- Kritika Garg:** And MHE, we expect to do a run rate of around 100 crores per quarter for sales?
- Kamlesh Shah:** Yes, the same you can take.
- Kritika Garg:** And we expect to be a breakeven at an EBITDA level?
- Kamlesh Shah:** EBITDA level it is positive.
- Kritika Garg:** For full of FY19?
- Kamlesh Shah:** Yes we are hopeful it will be.
- Kritika Garg:** What's the capacity utilization in MHE?
- Kamlesh Shah:** It is 50%-55%.
- Kritika Garg:** For FY20 what's the outlook?
- Kamlesh Shah:** For FY20 we would see MHE and Gear both put together would be (+) 1200 crores. But afterwards it all depends upon how because FY20 is a year of elections in India so this all thing depend upon how the economy scenario would be there.

- Kritika Garg:** But how are we seeing the scenario as per Elecon like are we seeing an uptake, are we seeing more orders like more enquiries coming in?
- Kamlesh Shah:** Presently, we have the enquiries available with us and considering the current enquiry flow the way if it is there till FY20, that's the reason how we are looking for the (+700) crores for FY20. But this all depends upon the election scenario over there.
- Kritika Garg:** And when can we reach a peak margin for MHE?
- Kamlesh Shah:** Margin we look that in FY20 we will have a positive thing but I can't commit on how much it will be there in terms of positive profit level.
- Kritika Garg:** And transmission margins for FY 20 will be better than that of FY19 or do we expect to maintain it?
- Kamlesh Shah:** It will be slightly better than what we are projecting in FY19 because one export order also we are expecting, we will have a good export order. We are presently getting the enquiry on the overseas.
- Kritika Garg:** And in transmission do we expect to exceed 600 crores this year considering Quarter 4 is going to be our biggest quarter?
- Kamlesh Shah:** We are hopeful about that and as we are pushing. But as a conservative view we would like to maintain that what we are projecting otherwise we may do so.
- Moderator:** A next question is from the line of Siddhesh Chavan, an individual investor. Please go ahead.
- Siddhesh Chavan:** My question is our MHE segment is starting to perform well; can we expect this trend going forward?
- Prayasvin Patel:** Yes, we had also announced earlier that there were two projects which was right now being executed. Once those get over we more or less our strategy is to start selling products where the margins are better and the execution time is much shorter and therefore the margins going forward would be much higher and better and there would be an improvement in performance. However the top line would reduce.
- Moderator:** We will take a next question is from the line of Aman Shah from Jeetay Investment. Please go ahead.
- Aman Shah:** In the NCD that we are going to raise what is the cost of debt that we are planning to retire?
- Kamlesh Shah:** This will be as per the current market so we are about to finalize. It is almost done but we have to sign the agreement. Once it will be done we can announce about that.
- Aman Shah:** And what would be the savings like it will be 2% interest rate savings?

Prayasvin Patel: Interest savings?

Aman Shah: Post the refinancing there will be some interest savings that will be there.

Kamlesh Shah: Yes we have that kind of plan only that's the reason we are going for effective debt management. However we are the planning to save the interest cost on this but let the transaction to execute then it will become clearer. I think in the next quarter I will be able to give the exact figure about that.

Aman Shah: In other income in the consolidated financials I see 50 crore is the other income, out of which around 36 crores is from gain of immovable property and I think 6 crores is from settlement with the party. So he if we exclude this then the other income is around 9 crores so is there one-off in other income because even 9 crores on one quarter becomes a big number?

Kamlesh Shah: Because some are regular and it includes the exchange gain also.

Aman Shah: So within that 9 crores there is also exchange gain?

Kamlesh Shah: Exchange gain is also there.

Aman Shah: What would be the quantum of that gain?

Kamlesh Shah: I don't have the exact figure just now but I will mail you through Binay over that also or let me just take it out. By the time the call is there I will just update you. Presently this is not readily available.

Aman Shah: If you could tell us what would be operating cash flow in this quarter and the first half of this year?

Kamlesh Shah: It is 18 crores.

Aman Shah: 18 crores in Q2?

Kamlesh Shah: No this is I am talking about Q2, correct.

Aman Shah: And H1?

Kamlesh Shah: H1 34 crores.

Aman Shah: Regarding the settlement with the party, can you throw some light on that what is exactly that?

Kamlesh Shah: Pardon.

Aman Shah: 6 crores which is settlement with a party you said so what is the nature of this settlement actually?

- Kamlesh Shah:** Settlement because in the EPC contract, it happens whenever any dispute or any things are there after the completion of the contract so there will be the settlement with the party about this so which may be pending over the period of 2 to 3 years and then we are coming to one conclusion about that and we are amicably settling the case.
- Aman Shah:** So we have sort of written back amount which we might have written off earlier?
- Kamlesh Shah:** No there is no written off, there is a gain to me. In this quarter we have not written off anything related to that part.
- Aman Shah:** So this is not actually reversal of any arrear provision that we have made?
- Kamlesh Shah:** It is. Now your query related to 9 crores what is the gain out there, it is Rs. 6 crores.
- Aman Shah:** From FOREX?
- Kamlesh Shah:** From yes exchange gains.
- Moderator:** Our next question is from the line of Kritika Garg of Equitas Investment. Please go ahead.
- Kritika Garg:** How much debt do we plan to reduce by in H2, so currently we have reduced 50 crores in standalone and H1 so how much do we expect to reduce in H2?
- Kamlesh Shah:** We are expecting to reduce further by 25 crores.
- Kritika Garg:** I think consol basis we are net debt free in our subsidiaries? We have enough cash now in our subsidiaries.
- Kamlesh Shah:** We have the cash and we have utilization also to retire the debt and so something we may use for the Working Capital also.
- Kritika Garg:** Do we expect our debt even in the subsidiaries to go down?
- Kamlesh Shah:** Yes.
- Kritika Garg:** Could you give us the revenue numbers for the US and UK subsidiaries?
- Kamlesh Shah:** UK we have revenue for six months is GBT 6.08 million. US is US\$ 4.5 million.
- Moderator:** Our next question is from the line of Sudhakar Prabhu from Netisoft. Please go ahead.
- Sudhakar Prabhu:** This subsidiary called Mauritius Elecon Engineering Transmission and merger of this EECL. What exactly does this company do?

- Kamlesh Shah:** Elecon Transmission is a holdco company which is holding the investment in the overseas subsidiaries both Radicon and Benzlers.
- Sudhakar Prabhu:** Basically this Mauritius entity is the holding company for Radicon and Benzlers and these two companies would be merged with the parent company, is my understanding right?
- Kamlesh Shah:** Yes.
- Sudhakar Prabhu:** Secondly you have this Order Book in both these entities in material handling it is around 475 crores and in transmission it is around 740 crores. So how much of this is actually executable in the current year?
- Kamlesh Shah:** It is nearly 530 crores it is executable in this year.
- Sudhakar Prabhu:** 530 out of the Transmission business?
- Kamlesh Shah:** Both put together, I am talking.
- Sudhakar Prabhu:** Balance would be like what? These are executable over what period?
- Kamlesh Shah:** In regard to the MHE it will be executable in the next year because now we do not have any projects which are having more than 12 months of cycle. In transmission if I am removing the marine projects, it is executable before June itself. Only marine project is executable over the period of 3 years.
- Sudhakar Prabhu:** You have debtors of 630 crores, can I get the breakup between the Material Handling and the Transmission business?
- Kamlesh Shah:** I don't have it separately, but I will mail you. I will get the mail from my Relationship Manager and I will mail you about that also.
- Sudhakar Prabhu:** Lastly, you have gross debt of 500 crores as of now on the consolidated basis, right?
- Kamlesh Shah:** Yes it is.
- Sudhakar Prabhu:** What would be your net debt on consolidated basis?
- Kamlesh Shah:** Net debt on consolidated basis would be 500 minus 74 crores, it is 426 crores.
- Sudhakar Prabhu:** Lastly, what is your average cost of borrowing?
- Kamlesh Shah:** Presently if you say it is nearly 12%.
- Sudhakar Prabhu:** After this refinancing do you think you're borrowing cost should come down or it would be more or less similar?

- Kamlesh Shah:** It would be similar only because presently the MCLR and everything is from site, so down the line we are also expecting the rate hike will be there. So we are expecting this would be nearly the same or marginally plus or minus, depends.
- Sudhakar Prabhu:** What would be your strategy for reducing this debt because a debt of 500 crores on your existing EBITDA is too high, how do you plan to reduce this debt?
- Kamlesh Shah:** Down the line my operations are coming on the track itself and with this we are hopeful that my debt is going to be reduced over a period of time. If you see in the half year also we have reduced my debt by 75 crores.
- Sudhakar Prabhu:** Yeah but then 50 crores because of Other Income, right?
- Kamlesh Shah:** No, it is not.....we have to utilize that also.
- Sudhakar Prabhu:** So you are saying that 50 crores from the sale of immovable property are yet to come in.
- Kamlesh Shah:** No, money is there. It is lying in my bank balance. This we are going to utilize in this month itself. Because that we received in the last week of September.
- Sudhakar Prabhu:** Lastly, what would be your retention money out of the total debtors?
- Kamlesh Shah:** Out of my total debtors my retention money is 350 crores.
- Sudhakar Prabhu:** And when do you plan to realize these 350 crores?
- Kamlesh Shah:** We are hopeful before this year end we may receive 20-25 crores and a big chunk will come in the coming year, FY20 we will get.
- Sudhakar Prabhu:** This amount is due from what, private parties or public sector entities?
- Kamlesh Shah:** Mostly from PSUs.
- Sudhakar Prabhu:** The entire 300 crores?
- Kamlesh Shah:** 90% is from PSUs, only 10% is from the private companies.
- Sudhakar Prabhu:** And you are saying this entire 300 crores, at least the majority of the 300 crores, will come by FY20?
- Kamlesh Shah:** A major amount will come.
- Moderator:** Our next question is from the line of Kritika Garg of Equitas Investments. Please go ahead.
- Kritika Garg:** Of our Order Book how much would be from the private sector?

- Kamlesh Shah:** I don't have the figure exactly.
- Kritika Garg:** Approximately in MHE?
- Kamlesh Shah:** Out of these 475 crores nearly 60% is from PSU and 40% is in debt. It maybe plus or minus, it is just a rough idea.
- Kritika Garg:** If you could tell me a breakup of industries also for these 475 crores?
- Kamlesh Shah:** It is from steel, cement, fertilizer.
- Kritika Garg:** And the largest contributor would be which industry?
- Kamlesh Shah:** Largest is from steel and power.
- Kritika Garg:** So would they contribute greater than 50%, steel and power?
- Kamlesh Shah:** Both put together?
- Kritika Garg:** Yeah.
- Kamlesh Shah:** Nearly 40%.
- Kritika Garg:** In my transmission business if I exclude the marine order, how much would be private sector orders?
- Kamlesh Shah:** Nearly 70% is from private sector.
- Kritika Garg:** Which industries?
- Kamlesh Shah:** It is across all industries, because Gears are used across all industries.
- Kritika Garg:** Like any industry which is contributing the most in transmission?
- Kamlesh Shah:** It is sugar, cement and steel also to some extent.
- Moderator:** As there are no further questions from the participants I now hand the floor back to the management for closing comments. Over to you, Sir.
- Prayasvin Patel:** Thank you. The economy has been supporting us especially in the first half of the year and we hope that it will continue doing so. We have put in all the efforts and energy to improve the performance of the Company and going forward I can assure you that we will try our utmost to further improve the performance and the results of the Company. We only hope that the economy will support us in doing so. I thank you very much for the support that all of you have given us and taken keen interest in our Company. Thank you.

Kamlesh Shah: Thank you for participating in the conference call. Thank you very much.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of Elecon Engineering, that concludes this conference. Thank you for joining us and you may now disconnect your lines.