



“ELGi Equipments Limited Q2 FY 2016
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the ELGi Equipments Limited Q2 FY 2016 Earnings Conference Call, hosted by Asian Market Securities Limited. 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 “*” then “0” on your touchtone phone. I would now like to hand the conference over to Mr. Kamlesh Kotak from Asian Market Securities. Thank you and over to you Mr. Kotak!

Kamlesh Kotak: Thanks Karuna. Good afternoon everyone. On behalf of Asian Markets I welcome you all to the Q2 FY2016 earnings conference call of ELGi Equipment Limited. We have with us today, Mr. Jairam Varadaraj and his team representing the company. I now request Mr. Jairam to provide us with an overview of the quarterly results and then we shall begin the Q&A session. Over to you Sir!

Jairam Varadaraj: Thank you Kamlesh. Ladies and gentlemen first of all I apologize for being late into this call. I did stuck in a meeting that I could not get out of so once again I apologize for it. Consistent with the pattern with which we conduct a call I am going to explain to you our second quarter with respect to last year second quarter at a consolidated level the second quarter with respect to the first quarter of current year again at a consolidated level.

Now comparing the second quarter of this year with the second quarter of last year we have had at a consolidated level we have had an increase in revenue to the extent of 55 million and because of the increase in the sales contribution of the material cost has gone up by 27 million and through better material costs lower material cost percentage our contribution has gone up by 36 million. So the total increase in contribution after material cost has been about 60 million; however, the EBITDA is only 237 million compared to 278 million of the previous year and if I take the 278 million that was done last year and the 60 million that we have improved in performance the EBITDA of the company should have been 338 whereas it has been only 237. So I have to give you an explanation for approximately 100 million at the EBITDA level.

The largest increase in cost has been manpower cost of 42 million of which India and US are the main contributors. India of course has been marginal normal ongoing increase in capital I mean in manpower cost increase in salary no significant change in the headcounts. In fact we have reduced the headcount whereas in the US it is a continuing exercise of these built in the team after the earlier dislocation that we made in the market. So that is also pretty much stabilize I do not see it continuing on into the future.

Besides manpower cost we have had an increase in fixed cost rate to the extent of 38 million and that is primarily because of the placement fees that we had to pay to the prove talent in the US. In addition we had employed certain temporary employees as the short-term bridge till we get all our people on board. In addition on the fixed cost the previous year, we had a reversal previous year second quarter we had a reversal of some of the legal expenses that was provisioned for in

the first quarter but when the case got settled out of court, we reversed it in the second quarter. So that is showing up a significant saving last year so just a notional thing.

In addition because of the change in the exchange rate in rupees we are recording a higher fixed cost in rupee terms but in dollar terms it has been the same. So that has contributed to the extent of about 60 lakhs and the last piece is about 25 million which has been the fluctuation in exchange rate and that has primarily come from Brazil where the Real has significantly depreciated with respect to the dollar. Otherwise, overall I think the operations are in good shape.

If I look at Q1 of this year with Q2 of this year sales has been pretty much flat; however, our material cost we had better consol of about better margins on material cost. So our contribution after material cost has actually increased by about 38 million. The Q1 EBITDA was 310, Q2 EBITDA is 237 if I had taken last year's ratio and added this additional 48 million that we have gained at material cost level the EBITDA this quarter should have been 357, which means there is a short of about 120 million in EBITDA. The biggest contribution has been exchange fluctuation close to 95 million has come in because of exchange fluctuation and that is primarily in Brazil.

The second biggest one is an increase in fixed cost to the extent of 22 million and that increase in fixed cost has been we had R&D expenditure in ELGi which is eligible for significant tax reduction because we are approved as a R&D house and this year onwards we have taken all the warranty costs worldwide into the parent organization so that the change in accounting a Brazil brought that warranty cost into our consolidated into this account so besides that there are no significant impact in the business.

As far as the overall business scenario is concerned the US operations have continue to remain very positive. Brazilian operations are still doing better than last year but we are beginning to see the impact of the economy. It is beginning to put pressure on our topline. The bigger concern in Brazil is the dip huge depreciation of the Real. We have started and the bulk of our foreign exchange loss is not because of the sale value but it is because of the debt and outstanding that is there in the company that our dollar denominated, which has substantially increased the local currency term. So we are changing some of we are providing loan with Real now. Both through the parent company as well through other subsidiaries like the US. So that we are able to contain the foreign exchange induced losses in Brazil.

As far as Belair is concerned in terms of the industrial sales, it is doing better than last year but unfortunately last year we had a significant sale from a one segment called Breathing Air which is not there this year because of which the overall sales of the company is lower than last year. As far as Belair is concerned, I am going to use this opportunity to answer some questions that we have got from other investors and analysts which we said that we cannot answer independently but in a collective forum we will answer them wherever they are possible for us to answer and thereby we will disclose the stock exchange.

So there is a question pertaining to Belair in terms of what is the future and whether there has been the experience of actually buying the company has been good and what measures are we taking to mitigate the situation. Yes Belair was not a good acquisition for us in retrospective we have to do it. We will probably not do it not because of the opportunities in the French market but because the size of the business is so small that the leadership cost require to run the business in any country requires a certain level of size of revenue and this company was below that and therefore going forward for us that is a significant lesson in terms of size.

What are we doing in Belair? I am not able to disclose certain key things that we are doing there right now because of competitive reasons but we are taking some significantly different steps which will help towards mitigating the balance sheet defects that are there in the company as well as restructure the company towards a cost structure which is more amenable to the current level of business and we are hoping that we will complete this exercise by March 2016.

Coming down to Rotair, Rotair unfortunately this year has had significant setbacks. We had a large customer in Algeria who is contributing to close to about 20% of our revenue and that customer because of the Algerian economy the faith to that customer has become almost zero and that has had a huge impact but in spite of that the drop in profitability has been not as significant.

We will certainly a drop in profitability because of 20% drop in revenue but we expect that we are doing multiple things in different markets to make up. The core witnesses of our electric industrial compressors have grown very smartly in Rotair and we think that this setback, the customer believes that the Algerian economy setback will get resolved in the next quarter and there should be a gradual reversal back to normalcy.

Independent of that we are working building other lines of business while we will not be able to recover the entire situation by March 2016 we believe by March 2017 irrespective of Algeria we should be in a much better situation.

Another question I mean I will finish the subsidiaries and come back to general question. Middle East and Africa have been a challenge. Africa for us we had a big presence in Nigeria and again because of oil prices, the Nigerian economy is in bad shape. The market demand is there but the significant export control foreign exchange controls have been putting. So our distributors and customers are not able to open SGs and make payment. So we have on a kind of a waiting mode there in the mean time few other African countries have kicked in but nearly not enough to compensate for the loss in Nigeria.

Coming to the Middle East, Saudi Arabia has been a similar situation with oil prices causing a significant setback in investments not only in Saudi but in Oman as well. After the dip in the first quarter we have beginning to see slow traction. We hope that the third and the fourth quarter will be better than significantly better than the second quarter already in the month of October, we are beginning to see some differences there.

India of course has done well compared to last year but nowhere near what we believe the opportunities are. We are still waiting for significant events to happen in the economy but we are holding up the market and the overall situations quite okay. In India we are seeing an uptick in the water well business but we are not able to say per sure whether it is a blip likely to happen year and a half ago in one month and went back to the same level. This is going to be sustained we do not know this year but we are well prepared to right away this time around.

The Far Eastern markets have been very poor partly this Indonesia oil price issue and economy and in the rest of the markets we are still struggling to gain some traction and we are working towards that. In the meantime we have done some significant cost reduction in Australia and we are beginning to see the results of that coming in. So overall the situation is on the revenue side non-Australia is not so good but on the cost side we are in a much better situation than last year.

Coming to China, we have embarked on a major reorganization. We have made a decision to temporarily shutdown manufacturing. We are going back to the drawing board in terms of the designing our products because we are now convinced that we need to have a China specific strategy rather than taking European or an Indian strategy and implementing it with China. China constitutes close to 20% of the world market in compressor and we have global aspirations we need to find a way to do business in China and fundamentally, we believe our present design, cost structure does not give us the ability to be competitive in that market.

So manufacturing will be shutdown temporarily. We expect the whole new design and going back to China with the manufacturing will take about three years. In the meantime, we are retaining and strengthening our sales and service organization to continue to remain engaged with customers and then once we have a product line which is competitively we will be able to see a lot more stronger the Chinese market. This is the overall situation as far as the subsidiaries are concerned.

There has been like I said there has been set of questions that we have received from certain investors and analysts which I would like to answer. The question is how would the management have access the success of the international foray? What have been the mistakes and what have we learnt? Are we more or less convinced about the strategy now versus that is being embarked upon?

Our strategy was to build, was to acquire front-end platform to enable us to put our products into the various markets and this is what we did in Rotair, Belair and Patton. The success of that has been very good, both in Rotair and Patton. The failure in Belair is not so much the ineffectiveness or the wrongness of that strategy of getting a platform it was wrong because the size of the company was too small for the leadership. The cost of leadership that is required to enter. So going forward when we comeback to looking at inorganic growth we will look at size of the company as an equally important factor and the quality of the leadership has critical inputs in making the choices. These are the lessons that we have learnt and this will be incorporated in our future venture. I explained to you about that.

The next question was pertaining to Belair, which I have explained. The third question was about is about Rotair. What is recent the net margins of Rotair have been between 4.8 and 3%. Can these be improved to be the domestic business levels? Now I do not think we can reach domestic business level but significant improvement in costs are possible. The work has already started in Rotair. We have got a team, full time team in head office working on sourcing from either ELGi or in India to get the cost down. We are also looking at nationalizing the manufacturing content of Rotair so that we are able to leverage the better cost in India for their operations.

So while I expect things to improve we have a internal target of moving EBITDA to around 12% to 13% there which will probably you can say that it will take us to the current domestic level but the current domestic level itself if there is a improvement in India we will significantly improve. So I am not saying that we will reach that significantly improved levels but we will reach that level.

The fourth question is what will it take for ELGi, which currently has 0.2% of the global market share in compressors to become a significantly larger player? Now we are not 0.2% we are about 1.2% in our estimates of the world market and to become a significantly large player today we have the product line. We have I would say 90% of the product lines is available with us. It is a question of building a credible frontline platform without that it is having a great product, great quality, great price is not going to happen and we have increasingly realizing the building the platform takes times and it is not about just entering a market and having a great product and turning the switch on and expecting results to happen. So the question was it is a matter of time or it is a management intention to grow inorganically?

It is a matter of time at the moment. Today our debt levels are at around 290 Crores. We expect that by March 2016 we will be able to bring it down to about 230 and based on realistic expectation by March 2018, we should be close to near 0 debt. Our forays into next round of inorganic growth will only be contemplated when we are sure that we are on this track of reducing eliminating debt by 2018. So probably around 2017 we will start exploring those opportunity, as they are available.

I explained the situation the fifth question was pertaining to China. Is it hard to compete with local players? It is not difficult to compete with local players but it is difficult to compete with them with our present design, which is really a premium performance product. The local players make products that perform close to 25% to 30% lower than what we do so we are trying to build products to those segments where the volumes are and where we can compete.

The sixth question was the company's next fixed asset turnover is 3.9x is significantly lower than its five-year average. Does this mean the sales is within significantly no further capacity expansion or would that be an incorrect interpretation? Now if you look at our growth in sale over the last five years a significant part of it has come from our acquisition. Now not all the revenue from the acquisitions are supported or make a demand on the capacities that we have in India. For instance in Rotair they have their own capacity to produce some of the products only some of the capacity of Elgi has been utilized by Rotair. Similarly in Patton's a very small

percentage of Patton revenue depends on ELGI's capacity. So that is the reason why there is change. In addition also we have been extremely prudent about investing in service capacity. The big one that we made was to move to our new campus and the foundry, which is more a longer-term thing. It cannot be treated incrementally with sales.

The seventh question has been the independent directors on the board seem to have been associated with the company for a longtime most of the cases is there any thought been given to refreshing the board internal industry experts perhaps?

Now certainly our board members have been around on our board for a long time. On a very I would for want of a better word a US determined governance model longer they are in a board it is presumed that there is higher level of coalition with the promoters and management of the company while certainly there is merit to this thinking it is also a fact that the longer a board member is on the board, the better they understand the business. There is an emotional attachment to the business, which makes them a lot more of a contributor to the company. So that is the balance between these two extremes of thinking.

We are in a middle of as a board reflecting on all these factors and main thing is governance not so much a pre-prescribed kind of tenure that is driving us. We are looking at what are the elements of governance, the strategic contribution from specific directors that we would like and trying to work towards that. So I am not able to say that is there a specific plan and the specific timeline for the plan, no but concrete thinking has already started in the board.

Point #8, is the auditors RJC associates who have been with us for 13 years and again this seems to be they are a local audit company and their name does not figure in any of the top 500 companies. Now is there any thought being given to changing the auditor? Similarly some of the explanation that I gave with respect to independent directors on the board also applies to auditors. Auditors need to understand the business not just the way numbers are took are to be structured and certain level of tenure definitely increases the opportunity for an auditor to understand but we are clear that we are going to be moving away from RJC associates. We are already in conversation with them. We will probably from April 2016 onwards we will probably bring in a joint auditor to a one-year migration plan at which and by 2017 we will move onto the new auditors.

This pretty much answers all the questions raised by these investors and analysts. So this is pretty much my summary of the results and the overall performance and sorry it is longwinded kind of a monologue so I will stop now and then wait for your questions. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Deepak Agrawala from Elara Capital. Please go ahead.

Deepak Agrawala: Good afternoon Sir. Recently when we met in February you mentioned that the China where you are going to drawing board product drawing line of about 1.5 years to 2 years about and now you are indicating about 3 years. So is it going to take that long to really design a new product?

- Jairam Varadaraj:** I said three years to get back into manufacturing in China.
- Deepak Agrawala:** Okay so product design will be much shorter?
- Jairam Varadaraj:** Much earlier initially the products will be made in India and shifted to China and as the volumes build up we will move the manufacturing back to China.
- Deepak Agrawala:** Second question is how have been the performance of your forging division in terms of the capacity utilization?
- Jairam Varadaraj:** It is a foundry, not forge plant. We had set up the foundry with a capacity of close to 10000 tonnes and our plan was to utilize only about 3500 tonnes in the initial year and then slowly ramping up to about 6000 to 7000 as the market grew. Right now we are utilizing only about 2500 tonnes and that is primarily because the markets have been much lower than what we have planned when we set up the foundry. Now it is operating at almost close to breakeven. So that no significant cash out because of the foundry but a huge improvement in our quality, in our inventory and in the overall cost of machining because the quality the machining timings are all come down. So the qualitative stuff has been significant on the pure numbers we are at breakeven not losing money. We are not yet returning the cash that we put into the foundry.
- Deepak Agrawala:** Do you see any benefit of this improved productivity as well as the lower commodity prices that we have seen going through the margins?
- Jairam Varadaraj:** You have seen our material cost percentage if you look at it there has been a smart improvement over the last year and year and a half almost 2% to 2.5% and not that we are able to some of the cost increases we go through and give it customers and some markets we are able to hold on to the cost benefits that we are getting in steel and some other basic raw materials but we do not want to rely on these temporary flows. These are bonuses that we will gratefully take but our long-term cost optimization is to look at fundamental reduction in cost independent of changes in the commodity prices.
- Deepak Agrawala:** My last question is which sectors in India you are seeing some kind of green shoots but are you really seeing any pickup happening in some specific parts of the economy and or do you think that recovery has been pushed more or less FY2017?
- Jairam Varadaraj:** I do not know when the recovery is going to happen or when the growth is going to happen if at all or are we having a realistic expectation without how an economy grows but that is a separate conversation. The point for us the growth is I would not say any specific industry vertical has contributed but almost the large projects across all the industry vertical have not very poor. Those areas there are absolutely very little action going on there. Bulk of our improvement in sales has come from small and medium sized or even large companies doing incremental increases in capacity. That is the kind of pattern of demand that has come in and not the large project.
- Deepak Agrawala:** Which has been more or less the case in the last few quarters?

- Jairam Varadaraj:** The last few quarters even the small ones were not growing. Now they are beginning to grow.
- Deepak Agrawala:** Thank you.
- Moderator:** Thank you. The next question is from the line of Manish Goel from Enam Holdings. Please go ahead.
- Manish Goel:** Very good afternoon Sir. Sir on the Brazil I recollect that in Q4 we had an impact of nearly 10 Crores due to basically mark-to-market impact on currency depreciation. So this quarter if we probably want to look at that the forex impact, which would have hit in the other expense, would be how much Sir?
- Jairam Varadaraj:** Brazil impact is closed to about 9 Crores.
- Manish Goel:** This includes the local debt, which is outstanding as well as the operation cost right?
- Jairam Varadaraj:** We do not have any local debt. Only now we have converted one of the dollar loans into a Real loan. All this time there was money owed to ELGi in terms of supplies made those moneys are all hold in dollar. So that is really the losses that are happening. Now what we are trying to do is increase I mean real loan component so that that part is capped. Operationally, the business is making money. It is this loss that we have taken it was at 1.8 now it has come to 4. Now in March it is 3.6 and then it went down to improved to 3.3 and then now it has become 4, certain high levels of volatility.
- Manish Goel:** But locally also as you mentioned that we are now seeing challenges in the growth in the local market also?
- Jairam Varadaraj:** We are still doing better than last year but the growth rate compared to last year is tapering down over the last six months. Now the next six months how is going to be very difficult to tell, but I do not believe we will go bigger last year but the main challenge for us is to step the loss because of the foreign exchange.
- Manish Goel:** Sir I am not sure but I missed the comments on the Patton's US operations. So if you can highlight how has been the progress?
- Jairam Varadaraj:** Patton's is now beginning to do better than last year. As you know we lost a lot of our people and it has taken us quite a bit of time to get the right talent back on track, which is by and large there. There are still a few positions that are still not filled not able to fill with the right people but most of them are in place and we are beginning to see some traction of getting our customers back, but it will still take us at least another year and a half to two years to get back to if at all whether we can get back to the full levels of the pre-acquisition revenue it is difficult to say at this point of time but we are putting all our efforts to get to that point and if we do it will still take us about a another year and a half to get there. Profitability has been this year and this year so far has been a bit of a setback compared to last year primarily because of this additional cost that we have to

incur to get this whole thing back on track but that is in my opinion and I am very confident this is only temporarily. We will come back.

Manish Goel: Just to breakup for Patton's. So I understand the sales the new product sales were getting impacted but our after market sales?

Jairam Varadaraj: No new product sales were never getting affected. In fact the new equipment sale is continue to grow from the acquisition time even now. The main loss has been the aftermarket because of the loss in service technician who carried relationship with customers both on parts and service agreement and service.

Manish Goel: Sir in Belair as you mentioned that last year you had higher sales due to one account. So are we seeing a significant decline on a YoY basis for Belair say in the Q2 or first half?

Jairam Varadaraj: Yes if I remove last that segment the breathing air segment then we are marginally better but if I include that we are significantly lower.

Manish Goel: So Belair would be incurring losses?

Jairam Varadaraj: This year yes. We are parking a loss but we have already initiated like I said which I cannot disclose at this point of time. We had initiated some major exercise, which will help us restructure the balance sheet of that company as well as the cost structure of the company so that on a permanent basis we are on a profit mode even at the current level of that.

Manish Goel: China incurred a loss of roughly 13.5 Crores last year. So this year again you expect the similar number?

Jairam Varadaraj: Significantly lower. We have already started cutting back on cost. We are beginning to see the impact of it this year I think the loss will come down to probably around 8 Crores and next year onwards it will be in the between 3 and 4.

Manish Goel: When do you expect the new product sales to start Sir?

Jairam Varadaraj: The design work has started. We hope than in a year and a half to two years we will start selling those products from here but that does not mean we will have 0 sales Manish. We are already selling our products that our current design products are not like we are do not able to sell anything. So we are continuing with that sale. The new design will probably cost between 1.5 and 2 years.

Manish Goel: On the domestic market have we seen the industry because our sales are up by 3% to 4%, so is it in line with the industry or one is if you can give some colour on the industry growth one? Second on the especially on the water-well segment basically you did see some revival but like is it that we are now started gaining market share or how is it?

- Jairam Varadaraj:** On the non-water well industry scenario I am not able to say because it is too early. It is only six months of the year we do not know first of all we do not know the performance of Atlas Copco not listed so we are not able to how they perform. Quincy Air results have not come yet. So we will have to wait and see but there has been a high level of volatility in the sales because of both Quincy Air and Atlas have along presence in project orders, centrifugal compressors and all that they did some volatility there. So we are not able to say in the businesses that we have grown what is the overall industry performance. Our feedback is we are holding strongly to our market share in certain geographies and certain industry verticals we have grown. We have improved the market share. This is our assessment. It is very difficult for us to say overall what is the industry because too shorter time to make an assessment. Water well I do not know whether it is permanent thing or a temporary phenomenon. We have not got the numbers that gone to the competitors but our numbers are looking quite healthy.
- Manish Goel:** Sir last question on the overall compressor business if I look from the balance sheet last year what I get a number is roughly if I factor for say one time gain of some 20 Crores if I exclude that 22 Crores we have probably done some 35 Crores loss in the overseas compressors business. So as you said China losses will come and other places like Belair we are still probably going to see so overall number do you think that this losses?
- Jairam Varadaraj:** US had a big loss, which is not going to be this year. China loss will be significantly lower than last year. Australia loss will be lower than last year. The profit making entities namely, Patton's, Rotair and Middle East are going to bring in lower profit this year. Brazil, which is operationally profitable, is going to show a higher loss because of the foreign exchange. So operationally the significant market are they are doing better if I take US and I consolidate it with Patton the overall situation is marginally better than last year. Europe if I take Rotair and Belair it is worse than last year. If I take whole of China, Australia, Southeast Asia the losses would be better than last year. So I do not know your specific question if you want we can take it offline I can give you only.
- Manish Goel:** Just directionally I was probably wanted to get a sense, which probably helped a lot. Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Arun Bharti from Parry Washington. Please go ahead.
- Arun Bharti:** Good afternoon Jai. Jai, I just have couple of questions. One is at the consolidated level I just wanted to know what is the impact of the forex fluctuation in other expenses? My second question is on the Rotair. There was a write-off of about close to 4 Crores at the consolidated level. I just wanted to get a little bit of background about it?
- Jairam Varadaraj:** Consolidated level Q1 you are looking at previous year compared to previous year or you are looking at?

- Arun Bharti:** I am looking just at the consolidated level this quarter number what is the impact of other expenses forex fluctuations and other expenses?
- Jairam Varadaraj:** Consolidated forex is about 7 Crores.
- Arun Bharti:** Which are in this other expenses in this quarter.
- Jairam Varadaraj:** Yes.
- Arun Bharti:** Got it then my second question?
- Jairam Varadaraj:** The impact was on exceptional item close to 43 million is basically as part of our acquisition in this Rotair we had an agreement that any materials that does not move for three years will be to the account of the earlier owners. So what has happened is they have compensated us but that is at a balance sheet level ELGi Italy but Rotair as a company has to write that off because it is considered as non-moving.
- Arun Bharti:** I got it and this compensation from ELGi Italy has to flow through or will flow through the consolidated financial right?
- Jairam Varadaraj:** Absolutely.
- Arun Bharti:** Okay got it and my last piece is what is the capex plan for this year Jai?
- Jairam Varadaraj:** We had earlier declared that we will be spending around 25 Crores but I do not think we are only going to spend it half of that.
- Arun Bharti:** That is fine Jai. Thank you and all the very best.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.
- Vipul Shah:** Good afternoon Sir. My question is what is the absolute level of debt at Brazilian dollar terms.
- Jairam Varadaraj:** At what terms?
- Vipul Shah:** Absolute level of debt of the Brazilian subsidiary in dollar?
- Jairam Varadaraj:** The Brazilian subsidiary's overall debt is about I think \$6 million \$5.5 or 6 million.
- Vipul Shah:** By what time you are expecting it to convert into Real. What timeframe Sir?
- Jairam Varadaraj:** We hope that this quarter or latest first quarter we will convert it all into Real?

- Vipul Shah:** Sir my second question is what will be the EBITDA margin for domestic operations and what will be the EBITDA for all overseas subsidiaries together if you can breakup if it is possible?
- Jairam Varadaraj:** I do not have the EBITDA of the subsidiaries. I have the EBITDA standalone year-to-date is about 13.7%.
- Vipul Shah:** But if you can directionally say what should be the difference between?
- Jairam Varadaraj:** If you look at the consolidated it is 8.4%. So the subsidiaries are reducing the EBITDA by about 5.3.
- Vipul Shah:** By what timeframe we can bridge this gap Sir?
- Jairam Varadaraj:** I do not think we can make both of them equal. Foreseeable future at least for another five to six years, you will see the domestic always being higher but I expect progressively as the volumes build up and costs get rationalized internationally they will move up. I am not able to say at which time in the future both of them will equalize.
- Vipul Shah:** But your target should be a double digit EBITDA margin for international operations?
- Jairam Varadaraj:** Absolutely, in fact we are very close to double digit except for the few unexpected things like our write-offs we have to take off in Rotair and all that and otherwise we are very close.
- Vipul Shah:** Thank you Sir and all the best for the future.
- Moderator:** Thank you.
- Kamlesh Kotak:** Jai, Kamlesh here. Sir can you help us understand how the market for oil free compressors one railway and third ELGi US business?
- Jairam Varadaraj:** Oil free in India has been a bit challenged because large products like I explained to your large projects in power and steel are either on hold or people are not even looking at it and most of the projects that are the power whatever projects that are there are all public sector projects and that is all based on L1 and it is difficult to predict who is going to have the bigger desire who walkway with the order. So it is a little dicey at moment. Worldwide we are beginning to sell in bits and pieces oil free machine but this is something that is nearly not what it should be. So as part of our longer term planning we are looking at how to bring focus this particular product segment especially in some of the developed markets. It is too early for me to say exactly when we will be able to roll it on but it is actively in one of our initiatives. As far as the US is concerned we have grown our revenue quite smartly to the extent that we are no longer incurring a loss. The products have been extremely well received. We are continuing to increase the number of distributors that is non-backend territory and things are overall looking very positive there and I think we will grow from strength-to-strength in that market.
- Kamlesh Kotak:** Sir on the railway side?

Jairam Varadaraj: Railway has been marginally better than last year but there is a lot of talk about significant increase in capacity. We need to wait and see when that is going to happen Kamlesh. We are in touch with all railway officials at various levels and various manufacturing entity. Everybody is quite upbeat about the future but it is not getting converted in any specific plans on numbers yet. So we need to wait and see.

Kamlesh Kotak: Okay and you mentioned somewhere last time that textile side had some traction on the oil free. Textile and food pharma side is there anything.

Jairam Varadaraj: No we are focusing on segments that we are beginning to see some impact in pharma and food. Textiles is we are doing business with we have now signed up with Voltas which you know. Voltas is our distributor and they are bringing in quite a bit of traction in the textile segment but overall the segment is still in a quite a challenge situation.

Kamlesh Kotak: That is useful. Karuna anymore questions. On behalf of Asian Markets, I sincerely thank everyone for joining for this call. Special thanks to Mr. Jairam and his team for providing us the opportunity and providing the insight about the companies business. Sir it was a very elaborate discussion we had. With that we conclude the call. Any closing remarks Sir you want to make.

Jairam Varadaraj: I should thank you everyone for your time and I again apologize for being late on this call.

Moderator: Thank you very much all. Ladies and gentlemen on behalf of Asian Market Securities this concludes this conference call. Thank you for joining us. You may now disconnect your lines.