

**Q2 FY09 Post Earnings Conference Call Transcript****Management Rep.:**

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Mr. Sunil Rustagi, CFO

**PL Rep.:**

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**Moderator - David**

Ladies and gentlemen, good evening, and welcome to the post results conference call of EMCO, hosted by Prabhudas Lilladher private limited. As a reminder, all participants lines will be in 'listen only' mode, and there would be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during the conference call, please signal the operator by pressing star and then 0 on your phone. I would now like to hand over the call to Mr. Apurva Patel of Prabhudas Lilladher. Thank you and over to you Mr. Patel.

Thank you David. Good evening everyone and I would like to welcome Mr. Jain, Mr Rustagi and Mr. Khandelwal to the call. We will start with Mr. Jain giving us a brief on the numbers and then open the floor for a Q and A session. Over to you, sir.

Thank you Apurva.

**Mr. Rajesh Jain**

Good evening everybody. It's nice to have you once again on the conference call. I would like my colleague, Mr. Sunil, to just update you on the second quarter numbers for the benefit of the people who may have not got those numbers.

**Mr. Sunil Rustagi**

Good evening, ladies and gentlemen. Thanks for participating in this concall. The total sales for the quarter ended September 2008 was 230 crores, as against 184 crores during the last year's quarter, registering a growth of 25%. EBITDA level stood at 30 crores as against 25 crores of Q2 last year registering a growth of 22% and at PAT level we have done 11.3 crores, as compared to 10 crores, in Q2 last year, registering a growth of 9%. We have currently order book position of around, 1300 crores, in Q2 as compared to last year, 1005 crores, registering a growth of over 29%. So, I am now putting this forum open for questions and answers. Thank you.

**Moderator - David**

Thank you very much sir. We will now begin the question and answer session. At this time if you would like to answer a question, you could press \* and 1 on your phone. If you decide to withdraw from the question, you could press \* and 2. Participants who wish to ask a question can press \* and 1, now.

Question comes to you from Nainesh Rajani from Tata mutual fund.

**Nainesh Rajani, Tata Mutual fund**

Good evening sir, just wanted to understand, if you can give me your current debt level. Fixed and floating capital, what is the cash in the balance sheet, and what is the average in fiscal that we are paying?

**Mr. Sunil Rustagi, EMCO**

This is around 370 crores all put together. 110 crores term loan, and around 250 crores working capital. Interest is around 11.5% and cash in hand is around 40 crores.

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**Nainesh Rajani, Tata Mutual fund**

Cash in hand is around 40 crores, at this point in time. And wanted to understand your sense on the picture as far as transformers and transmission distribution is concerned, if you can give us some sense on what you are seeing on ground, or is there any slowdown as far as transformers, if there is a slowdown, till what extent this slowdown is and how we could be impacted.

**Mr. Rajesh Jain, EMCO**

To our mind, I would like to divide this into two categories. One is in terms of expected order floor based on the inquiry, which we have, and second is in terms of the inflation related issues. So, in terms of order flow, we still continue to see that, third quarter and fourth quarter, in terms of order flow is going to be much bigger than what it was for the first and second quarter. In terms of input of orders, concern is not there. Translating this order book into topline and bottomline, yes, there are concerns in the sense of execution. When I say execution, not related to what we can do under our four walls, in our manufacturing facilities, but we are talking of the overall eco system in terms of how our suppliers, in terms of their cash flow, how our suppliers are geared up to take care of the financial situation. And there are so many more variables. And since no definitive answer can be given at this point of time, we believe that being a part of the same ecosystem, there could be some impact going on in the third and fourth quarter. So, it may be difficult to give you a specific number, in terms of what impact that would be. But if I have to categorise it, order book looks good, and I am very optimistic that it will further strengthen, and execution, since we are part of the same system, I really don't know frankly, what impact, directly and indirectly it can have. Its very difficult to judge that because so many things have happened in the last 30 to 40 days. So, we have to keep a very close watch. We are talking to all our customers, we are talking to our suppliers on a continuous basis, we have increased our frequencies of talking to them, we have increased our visits to our customers. Yes, we have got some early signals, from some of our industrial clients, of delaying some deliveries, particularly some of the orders we had from mini steel plants, where we have got signals, that the project is delayed or we could not pick up the transformers or your project, which are building up, transmission lines, these may get further delayed. So, there are some signals like that. Now, how much impact it would have overall, is difficult to quantify at this point of time.

**Nainesh Rajani, Tata Mutual fund**

Thats it from my end, if there is anything I will come back sir.

**Moderator - David**

Thank you, Mr. Rajani. Next Question comes for Mr. Rahul Agarwal - Anand Rathi Securities Please go ahead.

**Mr. Rahul Agarwal, Anand Rathi Securities**

Good evening, sir. Congratulations on a good set of numbers.

**Mr. Rajesh Jain, EMCO**

Thank you Rahul.

**Mr. Rahul Agarwal, Anand Rathi Securities**

To, start with some book keeping questions. Our order book stands at 1300 crores. And our transformers form approximately 55%, right? What could be that in MVA times?

**Mr. Sunil Rustagi - EMCO**

In the order book position, 12, 700 MVA.

Mr. Rahul Agarwal, Anand Rathi Securities

In terms of order inflows for the quarter, what could be the order inflows?

Mr. Sunil Rustagi, EMCO

209 crores.

Mr. Rahul Agarwal, Anand Rathi Securities

And the YOY figures?

Mr. Sunil Rustagi, EMCO

I will have to calculate it. I don't have that number.

Mr. Rahul Agarwal, Anand Rathi Securities

Ok, fine, no problem. And sales, the transformer sales were 70% of 230 crores. So, what would be in MVA times?

Mr. Sunil Rustagi, EMCO

3211 MVA.

Mr. Rahul Agarwal, Anand Rathi Securities

Ok, sir, to start with, we have outstanding warrants, 17 lakhs to be converted, and I think it is due on expiry on 14th of July 2009. So, these warrants were basically launched to fund the long term funding of EMCO. So, could you throw some more light on this?

Mr. Rajesh Jain, EMCO

What do you want on this?

Mr. Rahul Agarwal, Anand Rathi Securities

Just wanted to confirm if the management is looking to convert these warrants? If the management has planned something else, for funding the original requirements, for the capex, for the next year?

Mr. Rajesh Jain, EMCO

No, Rahul, I think, the warrants were primarily for two reasons. One reason was to increase the promoters stake, and secondly when obviously you have the money coming in through the warrants that money is going into the company, for long term requirements of the capex. No, to come to your specific question, since I am a shareholder and owner and also the professional manager, I am holding both the hands. Let me talk as promoter for one minute. July is still some distance away for us to take a call. So, what it could be I cannot tell you today, because I think the way things are changing on a daily basis, i think it will not be right on my part, to talk about July today. So, this will be in terms of the promoters increase in their stake. Second, what impact does it have in terms of the capital which has to come into the company? Whatever capex we had related to EMCO Ltd., none of it is linked to this. Majority of it was linked with the power projects. The capex long term, which was the equity of Emco Ltd, coming into Emco energy, that is what was linked to this. So, there again, we still have time, its not something which we have to address tomorrow morning.

**Mr. Rahul Agarwal, Anand Rathi Securities**

Fine, sir. Sir, we have heard from media reports that Emco, has tied up with J power of Japan, for some transmission project which is basically increasing transmission capacity, without installing bigger towers. Sir, can you please update on that part?

**Mr. Rajesh Jain, EMCO**

Yes, Rahul, there is this company in Japan, J Power, as you rightly said. We have a specific understanding to explore possibilities of looking at projects in India where, right away, is the problem where you cannot remove the towers, but you want more power to be injected into the system. Now there are special conductors which this company will make, and there are only couple of companies in the world, who make this kind of conductors. Incidentally, this tie up is not something which we have done recently, but this tie up was done about a year back, we have already, for your information, executed our first project, with Torrent power, that project has now been completed in Ahmedabad, and the order which we had got, that contract has now been completed in Ahmedabad. So, already we have got the first breakthrough. And we believe this is a fantastic solution for a lot of areas in our country, where removing towers and putting new ones is going to be close to impossible. So, these are solutions, which can be used in those areas. So, our efforts are on, now to look at those kind of options.

**Mr. Rahul Agarwal, Anand Rathi Securities**

What could be the potential size of such an installation?

**Mr. Rajesh Jain, EMCO**

This is the rough estimate that we have, because there is no quantifiable estimate. The major customer, here again is powergrid. With every state, for e.g. a State like Maharashtra, or in Bangalore or in Karnataka, similarly some people from Andhra Pradesh, so these people, all put together, our own rough estimate is around 700 to 800 crores. This is a rough estimate. That requires some new technologies and as I said, only the first project has been executed and that is, Torrent power.

**Mr. Rahul Agarwal, Anand Rathi Securities**

Any update on the power plant equipment, the EPC contractor was to be finalised, so could you throw some light on that?

**Mr. Rajesh Jain, EMCO**

Rahul, on the power projects, in the last 2 to 3 months, we have been discussing with various suppliers of power equipment, and particularly, from china, and what has happened is that they have been maintaining, a certain price level, and they have not been reducing it, and in addition to this, on the other side, there are two things which are happening. One is, that the commodity prices have dropped substantially, and second is that the dollar has shot up substantially. You know when I say substantially, it is around 49, very close to that number. Now what is happening is that, on one hand the total price of this equipment supplier, is very high. On the other hand if you convert that with today's dollar exchange rate, the cost is going very high. So, what now we have told our suppliers is that, looking at the impact of commodities, what has happened in the last two months, they have to give us a revised quote. Now we are at that stage again, where we are trying to take advantage of the commodity cycle, so that we can at least offset the dollar increase.

**Mr. Rahul Agarwal, Anand Rathi Securities**

When can we see our first phase of 135 megawatts, coming up, just a rough figure? For e.g we did our equipment in the next 1 to 2 months, we finalise it, when could we see our first phase?

**Mr. Rajesh Jain, EMCO**

Rahul, from 0 date, the first unit is 26 months, and the second unit is 2 months after that. 0 date is considered from the date you give the advance. Normally the contractor takes the advance today, as the 0 date. Some contractors also go by the signing of contract. but some contractors want the advance to be given for the 0 date to start.

**Mr. Rahul Agarwal, Anand Rathi Securities**

My last question will be on the transformer order book. Currently end of September it is 715 crores. Right?

Yes.

And last year, same quarter it was close to 704 crores?

Yes.

If you see the YOY growth, it is kind of slackish and even if you compare with current quarter of 09, it was 728 crores, which, again lies in the same range. So, just wanted to know, is there some problem in the transformers order book coming in, or is there some other issue?

**Mr. Rajesh Jain, EMCO**

No, there is another issue, Rahul. What is happening is, that in one of our units, where we make these very small transformers, APDRP, or the Rajiv Gandhi Gramudoyog Programme, we are going slow in booking those orders. For the simple reason, what is happening is that, one is that obviously the price levels are very low. In addition to that what we have been finding over the last 1 to 2 years, is that even though we keep the product ready, those products are not being taken by the ultimate contractors, because, of his own challenges, he is facing in executing those contracts. Another result what is happening is that on one hand, we are taking it at very competitive prices, on the other hand, we make the product and it lies unpaid for, for a longer period of time. So, both ways, we are the losers. So, the decision in the last 6 months, is that, we are shifting our focus from those customers, to more industrial customers.

**Mr. Rahul Agarwal, Anand Rathi Securities**

So, you mean to say this is a temperory phase, where you are trying to move from a more better model, in terms of understanding price bands?

**Mr. Rajesh Jain, EMCO**

Thats it Rahul.

**Mr. Rahul Agarwal, Anand Rathi Securities**

Ok, signing off sir. If I have some more questions, I will come back. Thank you very much.

**Moderator - David**

Thank you very much Mr. Agarwal. Next question from Abhinav Sharma, from JM Mutual fund. Go ahead.

**Mr. Abhinav Sharma. JM Mutual fund**

Just wanted to know, you had given a guidance of about 35% for the current year. And looking at the results, you think that 35%, will hold for the current year?

**Mr. Rajesh Jain, EMCO**

Mr. Sharma, at this point, as I said to one of the questions earlier, that in terms of what we see today, we still are confident that we should be able to achieve it. But I would like to put a line over there, that there are so many variables on a daily basis, that, we are encountering when we are dealing with our customers as well as with our suppliers, that we really don't know the full impact. And unfortunately as I talk to you, this impact has been only over the last 30 to 40 days. And we are very soon into this conference call. So, a lot of it would emerge in the coming 90 days or in this quarter. In terms of order which is available with us, I see theoretically no reason, why we should not be able to achieve it, but when we look at the overall supply chain management, whether it is from the suppliers side or customers side, now if some of the chains break, what impact and what percentage of impact that would be, I think it would be difficult for me, to quantify that today.

**Mr. Abhinav Sharma. JM Mutual fund**

Ok, so, you look less confident today. If I look at your competitors performance, they have been growing at a very robust pace, if you look at the performance of some of your competitors like Indo tech transformers and Voltas, in the second quarter, they have put in very good numbers.

**Mr. Sunil Rustagi, EMCO**

If you see, CGL has grown by 9%., Voltamp by 14.78% and Indotech of course, they have grown by 27%. So, we are better off than some of our competitors In terms of sales growth for the Q2.

**Mr. Rajesh Jain, EMCO**

Mr. Sharma, it is like this. I wish I could give you a quantifiable answer, my answer, in todays time, you should interpret it more positive than negative. Because you have said, are you still maintaining the 35%? I am still saying, that we are making all the efforts, but as a company, we are part of a certain ecosystem. Within that eco system, I personally don't know how much of my customers and suppliers are affected directly and indirectly. Even though as I said before, we have increased our number of visits to them, our number of phone calls, we are directly trying to understand what impact they are going through. Because ultimately, even though I may have a product ready with me, if the customer is not going to pick it up, this is not what we had identified at the beginning of the year. So, there are some situations, which have come up like that, even after that, we still believe that we will be putting in all the efforts, to get to this umber.

**Mr. Abhinav Sharma. JM Mutual fund**

Ok. As far as the margin front is concerned, the commodities have come off quite a bit, over the last few months, so, do you think some benefit for that would come in the coming quarter?

**Mr. Rajesh Jain, EMCO**

Not much, because there are two things. As I have been saying, when the commodity prices are going up, the question was what impact it would have on our EBITDA. And I would say, that we have a price variation clause, which passes on that. Now the opposite is also true. There is a price variation clause, which passes on the price benefit to the customer. So, on the price variation side it covers up on that percentage. On the firm contract, what happens is that, earlier our policy and our policy even today, is to cover up our position as soon as we get the firm contract. So, we don't like to leave our positions open. For e.g, if we get a firm contract, then we book our copper, back to back. Because, today they have gone down, nobody anticipated that 2 months back, that the drop would be this level. So, all our decisions are based on a prudent practice, of booking our firm contracts on a back to back basis irrespective of the price of the commodity.

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Mr. Abhinav Sharma, JM Mutual fund

Ok. Thankyou.

Moderator - David

Thank you very much. Our next question comes on line from Mr. Sachin Trivedi - UTI mutual fund Please go ahead.

Mr. Sachin Trivedi, UTI Mutual fund

Hi, sir, my first question, last 3 quarters we did not have Urja engineering, can we have some information as to how much is the contribution from that side of the business?

Mr. Sunil Rustagi, EMCO

The total contribution of our project business to Q2....was 35%. That includes transmission line business as well.

Mr. Sachin Trivedi, UTI Mutual fund

I just wanted to understand on the project business, is there a decent growth?

Mr. Rajesh Jain, EMCO

See, on the project business again, we are expecting it to grow substantially on a yoy basis. So, even what you see now, and at the end of the year what you will see, that the project business has grown substantially.

Mr. Sachin Trivedi, UTI Mutual fund

But is it possible to know what is the contribution of Urja Engineering?

Mr. Rajesh Jain, EMCO

What we do Sachin, is that we don't do anything different. We have categorized it as part of Emco part of projects. Whether it is sub station, transmission lines, these are all combined together.

Mr. Sachin Trivedi, UTI Mutual fund

Is it possible to get what all the contribution of engineering projects last year?

Last year, 17%.

Mr. Sachin Trivedi, UTI Mutual fund

Sir, my next question is on depreciation. There is some increase or depreciation is almost doubled, this quarter.

Mr. Sunil Rustagi, EMCO

This is because of the windmill. Windmill, which we installed in the month of march '08, 6 windmills we installed last year, so the depreciations, Book depreciation, was negligible because it got installed in the month of march 2008, so the depreciation is coming in the books in the current financial year.

Mr. Sachin Trivedi, UTI Mutual fund

So, last year we had the impact going forward. How is it, this windmills got installed now?

Mr. Sunil Rustagi, EMCO

No, it got installed in the month of March, so the depreciation, book depreciation, you took only for a month. Now it is giving an impact of 6 months, in the current half year.

Mr. Sachin Trivedi, UTI Mutual fund

So going forward this will not be there?

Mr. Sunil Rustagi, EMCO

Going forward, this will continue.

Mr. Sachin Trivedi, UTI Mutual fund

Ok. My one more question is the working capital part of it. How is the working capital cycle for us and the increase in interest cost, how much of that you will attribute to pure increase in the interest cost and how much is due to the working capital?

Mr. Sunil Rustagi, EMCO

I would say, major portion is due to pure increase in the interest cost, because, it was 9.5%, now it is 11.5%. The working capital cycle is almost same. 140 days.

Mr. Sachin Trivedi, UTI Mutual fund

And is it going bad, or is it improving, working capital cycle?

Mr. Sunil Rustagi, EMCO

Definitely it is improving, it is not going bad. Because if you see on rolling 12 months, the data is coming down

Mr. Sachin Trivedi, UTI Mutual fund

Ok, Thank you sir.

Moderator - David

Thank you very much. Next question comes from Abhishek Puri, from Jain financial.

Abhishek Puri, J M financial

Good afternoon. I just had a couple of questions. One is, at the start of the year, we had about 125 crores, cash and at the end of the year, we have 40 crores cash. Sir, could you tell us where the cash could be deployed?

Mr. Sunil Rustagi, EMCO

This is towards some of the capex we have incurred in the current financial year. We have remitted some amount of money for our coal business. We have also invested in some of the operational assets, during the current year.

Abhishek Puri, J M financial

How much is the capex?



**Mr. Sunil Rustagi, EMCO**

Capex is not much, 27 crores. And around 7 crores, we have remitted towards our coal mines. Further, it has gone into our working capital.

**Abhishek Puri, J M financial**

Considering the net profit margin, about 60 crores, power we generate, the depreciation level would be another 15 crores, of 75 crores, and considering there is little bit of cash left on the books, how do you plan to repay the debt, or how do you plan to raise more funds? Through equity dilution at these levels?

**Mr. Sunil Rustagi, EMCO**

No question of equity dilution, at Emco Ltd., at this level. The cash credit limit or working capital cycle which already has been created, is sufficient to take care of our Q3 and Q4, turnover, and there is no question of the repayment of the cash credit, because there of the working capital, and some loans have hardly any repayment in the current financial year, because we have installed windmills only in the last year. So, It is 2 years, plus 5 years, so, that will take time.

**Abhishek Puri, J M financial**

So, you mean to say, the working capital, loans would be deployed in the next 2 quarters, for the working capital requirement?

Yes.

So, the interest cost should become higher?

**Mr. Sunil Rustagi, EMCO**

Yes, if the interest rates are not going to go down, then definitely it will be higher.

**Abhishek Puri, J M financial**

And my other question would be, Ministry of Power had included your Wardha plant, 300 megawatt, in the best effort basis, for the 11th plan.

Yes.

So, what is the status on that, and how do you plan to fund that project?

**Mr. Rajesh Jain, EMCO**

Abhishek, as I said in the beginning, even today, if we are able to close the deal with the power plant equipment suppliers, from the 0 date, it is 26 months. So, if you take 26 months, it is still very much well within the 11th 5 year plan. So, our major challenge today is to be able to convince the power equipment supplier, to factor in the correct commodity prices, in the equipment, so that our project cost, because of the rise in the dollar rupee, is all very well managed within a certain project cost. So, our major challenge is that. As soon as that is done, 26 months, we still have sufficient time to complete it in the 11th 5 year plan.

**Abhishek Puri, J M financial**

The point is well taken, but how do we do the funding for that project?

Mr. Rajesh Jain, EMCO

The first unit of funding has already been there earlier, because that money we had used up just now to buy the coal mine, because the power project was getting delayed. So, in terms of the cash, which sunil just answered you, we have close to 40 crores just now, so that is something which we have to replenish again the coal mine. So, for the project number one, the money is already available. But for Part 2, as said earlier, part of it was expected to come from the warrants, from the promoters, or part of it would be from the internal cash approval, of Emco, at the end of the year. And further increase in debt. So, these are 2 or 3 options available with us, which we will explore which is the best one going forward, once we are able to put our finger on to deal with power equipment.

Abhishek Puri, J M financial

Can we expect the promoters to convert the warrants going forward, at 4.5 times the current market price?

Mr. Rajesh Jain, EMCO

It is too premature to even answer it just now. I don't think, you or me would have expected in the last 3 months, this kind of thing would have happened. But today going forward, if you ask anybody, everybody will say things will not improve for the next 2 years, some say 1 year, some say 3 years. Frankly, I don't think anybody knows, 1 or 2 or 3, which one is going to be right?

Abhishek Puri, J M financial

If the situation improves by next year, then you would convert the warrants?

Mr. Rajesh Jain, EMCO

Lets see. I think, Abhishek, again as I said, we will get 2 conference calls before that, don't worry. We are in the month of October and we have time till July. I think it's still a big distance to go forward.

Abhishek Puri, J M financial

Lastly, any updates on the coal front?

Mr. Rajesh Jain, EMCO

There is one more option to get funding for the balance part of the project. There are lot of strategic investors, who are called key investors, who are very keen to invest in the project. Because they have seen substantial amount of work which has happened, Abhishek. They are seeing, that we are not only saying that we have, to put up a project, we have the land with us, we have the water with us, we have the fuel linkage for the first two units. We have the environment clearance. This is all the work that has actually been done. So, there are lot of keen investors, who are keen to come in with a certain premium into the company at a subsidiary level. so, that is also one more option available for the company to get into equity.

Abhishek Puri, J M financial

But now premiums have already dried up?

Mr. Rajesh Jain, EMCO

Thats what I am saying. As we talk a lot of things have happened, which you and me have not anticipated, about 45 days back. So, lets wait and watch. We are not going to do anything in the next 15 to 20 days, anyway. So, I am just trying to work out the option portfolio, so we have these 3 or 4 options with us. I totally agree with you, looking at the premiums which Reliance Power got in the month of January, to now, we can all talk of it, that it was a dream, that

happened in the month of Jan. and what is happening now is another kind of dream. It is not a dream, it is a nightmare. So, we will wait. And what I am trying to tell you is that, even today, Abhishek, that there are some investors in the market who are keen to give you some premium, not maybe at the same level as they were doing earlier, but if you had read the recent report of Adani, and the premiums they are talking about, they have been valued at, I am not saying we will get that same number. But I am just trying to compare that with the premium other companies got about 5 months back. It still seems to be the same. In fact, to my knowledge, I am told it is higher than what it was 5 months back. So, there are some pockets of opportunities there, and there are some key investors who are still looking at a picture of 5 years to 6 years down the line. So, that one more option is there, for us to fund the balance part of the project. Because substantial amount of work has been done. See, there is a fundamental difference. We are not just saying, we want to set up a project. We are saying that there is one big project here on the ground, which has land, water, evacuation, environment clearance, fuel linkage and financial closure already done. So that itself is of substantial value in the context of how projects happen in India.

**Abhishek Puri, J M financial**

Last concall you had also mentioned that, PPA being signed?

**Mr. Rajesh Jain, EMCO**

Abhishek, I dont think it makes any sense today to sign a PPA.

You are keeping it open?

Yes, we are keeping it open.

**Abhishek Puri, J M financial**

And the other take on the coal size?

**Mr. Rajesh Jain, EMCO**

Coal size, abhishek, lot of coal has been mined and kept ready, now we have stopped the mining, because beyond a point, more coal, and it not being shipped can get into another danger problem, of fire and all those things. What has happend is that, some local permissions we have to get, which unfortunately has got delayed, which there are some things which we are also learning locally there. We anticipated we would get it in the month of September, so those permissions have been delayed, we have been told we will get it very soon, no date has happened, we will get it very soon. As soon as that happens, we will start shipping the material. We are very close to it. There, there are no other issues.

**Abhishek Puri, J M financial**

Thank you so much.

**Moderator - David**

Thank you Mr. Puri. Next question comes form Mr. Sachin Trivedi - UTI mutual fund

**Mr. Sachin Trivedi - UTI mutual fund**

Sir, my question has been answered, thanks.

**Moderator - David**

Next question from Mr. Vinod from Enam direct.

Good evening sir. In the order book of the transformer, how much is domestic and how much is export?

10% is export.

**Mr. Vinod - Enam direct**

And in the Q2 revenues, how much is the export revenues?

**Mr. Sunil Rustagi, EMCO**

Export revenues, around 10%.

**Mr. Vinod - Enam direct**

And how much is the execution time for this order book of 1300 crores?

**Mr. Sunil Rustagi, EMCO**

Somewhere around December 2009.

**Mr. Vinod - Enam direct**

Can you throw some light on the PGCIL tenders?

**Mr. Rajesh Jain, EMCO**

Vinod, there are PGCIL tenders, where they have not yet taken a decision. But we are well placed in substantial amount of tenders there, for the 765 Kv. And what we understand from PGCIL is that those orders would be finalised somewhere beginning of next year. January is what they have told us. So, we are keeping our fingers crossed, that it happens during that time.

**Mr. Vinod - Enam direct**

And any update on the south africa factory?

**Mr. Rajesh Jain, EMCO**

Work is on, and by middle of next year, we should be getting on to production.

So, July 09?

Yes, somewhere before that.

**Mr. Vinod - Enam direct**

Ok, Thank you sir.

**Moderator - David**

Thankyou, Mr. Vinod Waya, next question comes from Mr Gaurav lakhani - Anvil

Good afternoon sir. Sir, it seems there is a lot coal being extracted and kept in Indonesia.

Mr. Rajesh Jain, EMCO

Yes, that's right.

Mr Gaurav Iakhani - Anvil

Could you just share with us the extraction cost?

Mr. Rajesh Jain, EMCO

Cost, I would not like to disclose just now. Let things start stabilising there. It is difficult to say, that this is the cost and this is how it will be going forward. We will talk about it, as the business starts to pick up and we start getting revenues out of that business.

Mr Gaurav Iakhani - Anvil

Could you please just share with me the current coal price that is going on in Indonesia?

Mr. Rajesh Jain, EMCO

For the GCV, we have there Gaurav it is 5500 GCV, the prices I am told are ranging on the upside, about 54 to 55 dollars, FOB, and between 43 to 55 is the bandwidth, that is what, there are various market informations available.

Mr Gaurav Iakhani - Anvil

Sir, one more question, I heard from a newspaper report, that you are trying to set up a plant in coastal Maharashtra. Is it true, and if yes, will you be using imported coal, that was there in the report, and is this the same Indonesian coal that you are going to use, or some other, you are going to purchase it?

Mr. Rajesh Jain, EMCO

Yes, that's right Gaurav. Let me put it this way, as a company, which is Emco energy, generation arm, and 100% subsidiary of Emco Ltd., the job of the company is to keep looking at various opportunities, of looking at generation projects. In that, obviously coastal is one of the options. While looking at the options, we are looking at various lands, but parallelly we are also looking at projects, where we can set up pithead power plants on a coalmine. Now, as you know, coal mines in India, getting the coal mines, the process happens once in a year, which was last year, and now the next coal mines are expected in 2 months time. Now if we get one of those coal mines, then our first priority will be setting up a power plant on a pithead. So, coastal is there as an option, but not something that we are aggressively pursuing at this point of time. So, as and when we are able to get a coastal mine, this coal is something which we will obviously use, we already have the fuel with us.

Mr Gaurav Iakhani - Anvil

The logic for asking this question was initially you had told, this coal would be purely for trading purpose.

Mr. Rajesh Jain, EMCO

No, we started by looking at coastal as a project, while doing that we were also parallelly looking at fuel. It so happened that we could reach the fuel, before the site. And therefore we are going to use it for trading. But that does not leave out the option of setting up a project in future on a coastal basis.

Mr Gaurav Iakhani - Anvil

Alright sir, that was all.

Moderator - David

Next question from Purvi Gorashia - Asit C. Mehta Go ahead.

Purvi Gorashia - Asit C. Mehta

Good evening sir. My question is pertaining to commodity prices falling. Basically if we compare current copper prices, they are currently 25% down from the peak levels of last quarter. Because of the price variation clause, do we see the realisation of our order book going down, going forward and also from the current order book?

Mr. Sunil Rustagi, EMCO

Yes, realisation is going down, because the prices are falling down, because we need to pass on that benefit to the customer. But going forward, if the commodity prices go down, it will go down. If it goes up, it will go up, because realisation is a factor of commodity prices as well.

Purvi Gorashia - Asit C. Mehta

So, can we put a number, say out of 700 crores, worth of order book of transformers, what kind of sales, revenue booking that we can see?

Mr. Sunil Rustagi, EMCO

Of the 700 crores, it is presently around 550,000, per MVA. So you can divide by that and arrive at the number.

Mr. Rajesh Jain, EMCO

Purvi, let me put it this way, out of the 1300 crore order book which we have, and out of the total sales which we have done, till date, we have said, if we had to get a topline of 25%, then we need to achieve somewhere close to 1350 at the end of March. If you do that, minus the sales which we have done in the first two quarters, then you are looking at 350, plus around 600, you are looking at around 950 crores plus the 1300 which has to be executed.

Purvi Gorashia - Asit C. Mehta

What kind of fall in realisations that we would see because of falling commodity prices, in terms of percentage?

Mr. Rajesh Jain, EMCO

Let me put it this way. Copper is normally around 25 to 30% of the price. If you take 30% of a single calculation and have a drop of 25% on that, so you have 7.5 %.

It can be directly calculated that way?

Yes, because that is the weightage of copper in a transformer. Now this is a simple calculation. What happens is that when you look at a very small transformer, then this weight comes down, and the CRGO weightage goes up. But just to keep simple arithmetic, you can take 7 to 8% in price realisation clause.

Overall. Ok, thankyou.

Moderator - David

Thank you very much. Next question from Mr. Rahul Agarwal - Anand Rathi Securities

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**Mr. Rahul Agarwal - Anand Rathi Securities**

Sir, few follow up questions. When Emco is thinking of shifting its client base from more of government projects to industrial customers, just wanted to know in the order book of 1300 crores, what could be the ratio between SMEs and industries?

**Mr. Rajesh Jain, EMCO**

Let me just clarify. When I said shifting from government to industry, let me just clarify that government projects which are of APDRP and Rajiv Gandhi, that is the distribution side, but government projects which are on the transmission side and extra high voltage side, those projects will continue to be there and be a major business for emco. Because when you talk about power grid, Power grid is a government company, it is a very important customer, we are not going to shift from power grid. We are not going to shift on doing business in transmission, with bharat transco company. We are not going to shift from karnataka transco company. What I said in the beginning in the earlier time was, projects which are under APDRP, and projects which are under Rajiv Gandhi Gramudhyog programme, which are under distribution sector, those are the areas where we are removing our focus from, and that product range, which goes in that zone, that we are shifting more towards industry. Now coming to your question, today our government and industry is 70:30 . 70 is government and 30 is industry plus export.

**Mr. Rahul Agarwal - Anand Rathi Securities**

And about the interest cost, according to our last concall, our debt last quarter, was close to 325 crores. Am I right?

345 crores with 9.5% cost.

Right, so this cost of debt has been increased to 11.5%, so, this is mainly because of the re setting of the interest loan on the existing debt?

**Mr Sunil Rustagi - EMCO**

Yes, mainly because of that. The rates of interest have gone up, the PLR of all the banks have gone up. And for the time being they have requested us for the reduction of concession, which they were offering us earlier. So, that concession has gone out. Rate of interest has gone up. But, as for banks, they are saying it can be a temporary phenomena, they may restore the concession, depending on RBI's policies.

Mr. Rahul Agarwal, from Anand Rathi Securities

Ok, and sir, about the capex plans, we had a capex lined up about 100 crores, for FY 09. Am I right? So, it holds for the current year?

**Mr Sunil Rustagi - EMCO**

It holds for the current year.

Mr. Rahul Agarwal, from Anand Rathi Securities

And any plans for capex for FY 10?

**Mr Sunil Rustagi - EMCO**

No, not yet.

Ok, fine enough sir, Thank you very much.

**Moderator - David**

Thank you very much Mr. Agarwal. Next question from Mr. Zariwala, from Asian Market.

**Mr. Zariwala - Asian Market**

Good evening sir. My question pertains to, how much have we done in MVA sales?

**Mr Sunil Rustagi - EMCO**

3211 MVA.

And, how much was it in Q2 last year?

**Mr Sunil Rustagi - EMCO**

2512. no, I dont have figures for the last year, sorry.

**Mr. Zariwala - Asian Market**

And in terms of revenue break up, could I have the numbers please?

**Mr Sunil Rustagi - EMCO**

70% for transformer, 25% project and 5% ..

**Mr. Zariwala - Asian Market**

And how much was it in last quarter if you have? Q2 last year.

**Mr Sunil Rustagi - EMCO**

80% in transformers, 17% in project and 3% in product.

**Mr. Zariwala - Asian Market**

If I want to have the MVA for Q2 last year, could I have it?

**Mr Sunil Rustagi - EMCO**

I will find out and give it to you.

Ok, thankyou.

**Moderator - David**

Thank you Mr. Zariwala. Next question form Abhinav Sharma - JM Mutual Fund

**Abhinav Sharma - JM Mutual Fund**

Sir, could you give us the break up between your margins in the project and the product business?



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**Mr Sunil Rustagi - EMCO**

Margin in the project business is 10%. I am talking about EBITDA margins. Transformer business is 14.4% and meter is 16% for Q2.

**Abhinav Sharma - JM Mutual Fund**

If I compare across the transformer industry, there are players who are making a margin in excess of 30% and players like yourself, and Crompton greaves who are making margins fo close to 13 and 14%. So, what is the reason for such a wide differentiation when you are working under the same eco system?

**Mr. Rajesh Jain, EMCO**

Mr. Sharma, I have partly answered this question before. One of the reasons is that we are selling in the zone of distribution transformers where the margins are very low. And therefore we are shifting from there to high margin, high contribution, zones. Further it has not increased, but at least In this competitive environment, it will ensure there is stability in our bottomline, going forward. So, that is one area we have found out that is substantial.

**Abhinav Sharma - JM Mutual Fund**

Even companies in the distribution transformer space, are making margins in excess of 25%

Who is that distributor?

**Abhinav Sharma - JM Mutual Fund**

Companies like Indotech transformers and Voltamp.

**Mr. Rajesh Jain, EMCO**

Indotech and Voltamp dont supply transformers for APDRP and Rajiv Gandhi.

**Abhinav Sharma - JM Mutual Fund**

So, that is the reason primarily?

**Mr. Rajesh Jain, EMCO**

They supply to industry as well as government, I am talking of Indo tech. Voltamp supplies more to industry and very limited to government. APDRP and Rajiv Gandhi, those are distirbution transformers, which are high volume business. Those are not comparable with others.

**Abhinav Sharma - JM Mutual Fund**

So, your volume growth should compensate for a difference in margins?

**Mr. Rajesh Jain, EMCO**

No, we are shifting from there, there is no volume growth also there. One of the questions asked earlier to us was, why is it the order book is flat as compared to last year and this year? That is because this year, we have not booked nay orders from APDRP and Rajiv Gandhi programme as compared to what we had booked last year. So, we are moving out from that segment because we are finding that even though the order book looks good, but it is not giving us anything on the bottom line.

Ok, sir, thankyou.

**Moderator - David.**

Thank you very much Mr. Sharma. Ladies and gentlemen, due to time constraint, that was the last question. I would now like to hand the floor back to Mr. Apurva Patel for any closing comments.

**Mr. Apurva Patel**

Thank you everyone, Thank you Mr. Jain and Mr. Rustagi for giving us time, and all the very best to you for future quarters sir. Thank you everybody.

**Moderator - David.**

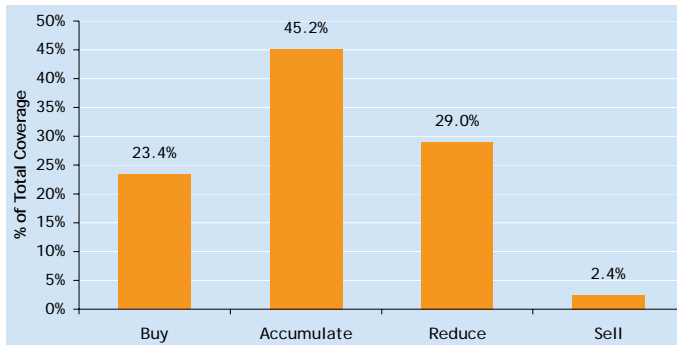
On behalf of Prabhudas Lilladher Pvt. Ltd., that concludes this evenings conference. Thank you for joining us and you may now disconnect.

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