

11 November, 2011

Moderator

Ladies and gentlemen good day and welcome to Lakshmi Machine Works Limited Q2 FY12 Results Conference Call hosted by Emkay Global Financial Services Limited. As a reminder for the duration of the conference all participants' lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. 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. Joining us on the call today are the members of the senior management team at Lakshmi Machine Works Limited. At this time, I would now like to hand the conference over to Mr. Naval Seth. Thank you and over to you sir.

Naval Seth

Thanks laveena. Good evening thank you for joining us today, we would like to welcome the management of Lakshmi Machine Works and thank them for giving us the opportunity to host this call. We have with us Mr. R Rajendran, Director Finance, I would now like to hand over the call to Mr. R Rajendran, over to you sir.

R Rajendran

Thank you. Good afternoon to everybody we are pleased to present our half-yearly result for the period that 30th September. This period the net turnover for the period from 1st April 2011 to 30th September 2011 is Rs1063.54 crore this is against Rs753.31 crore during the corresponding period last year. The net profit before taxation as disclosed in the profit and loss account what we have already disclosed is Rs132.88 crore against Rs112.94 crore. The export sales for this period of course, during this quarter are Rs196.31 as against Rs96.77 crore for the same period last year. We see the net sales actually there is an increase of 39% for this period and other income is decreased by some Rs29 crore to Rs26 crore, Rs3 crore reduction and profit before tax is increased from Rs113 crore to Rs133 crore. The profit after tax is Rs90 crore as against Rs76 crore. The gross profit ratio it has reduced from 21% to 17%. The reason for the reduction in the gross profit ratio is mainly on account of the commodity prices and the input costs have also gone up even though we had gone for a price increase thus came into effect from June,2011 onwards but still full impact is not reflected, at the same time whatever price rise was affected the commodity prices also see exchange costs have those things and then the input vendors have also subsequently asked for price rise mainly on account of the interest cost escalation from their angle, so we have to consider so we have to give the price rise there is no other issue, there is no other option. That is the reason you'll find that the gross profit ratio has reduced. The net profit ratio is also correspondingly reduced from 15% to 12%. So far as the employee costs and the administration is concerned there is a slight reduction of 1% mainly on account of top line growth increase of 39% because it is shown a decrease of 1% yield. The depreciation at Rs49 crore has increased to Rs53 crore and the other important factor is the investments also if you see the balance sheet we have shown an additional investment of Rs54 crore which we have acquired the 50% stake in the joint venture so that has increased our investment and the net current assets has reduced from Rs529 crore to Rs331 crore mainly on account of the compared to the corresponding period since we have opted for a buyback and then we have drawn cash to that extent, so that is one of the reason with the current assets have reduced. So far as the order book is concerned when compared to the previous quarter and during this quarter the order booking has come down considerably. That previous quarter ended 30th June we have received a fresh order of Rs547 crore the beginning of the period that is April 1st we had an order book of in the case of textile machinery division Rs4600 crore and during that three-month period ending June we received Rs547 crore and we have executed orders worth of Rs312 crore at the end of June we had pending order book of Rs4838 crore. During this quarter ended 30th September, as I mentioned the opening order was Rs4838 but during this period we have received only Rs180 crore worth of order and we have executed Rs355 crore and finally the order book as on 30th September as Rs4653 crore that is the order book is concerned. So far as the machine tools division is concerned there so we had an opening balance of orders of about Rs94 crore during the first April and we received about Rs38 crore and again we have executed about Rs53 crore and closing order book was about Rs79 crore. So during this quarter the opening as I mentioned Rs79 crore, we also received Rs38 crore during this period for machine-tool division and that we have executed about Rs59 crore balance outstanding is Rs58 crore, so when compared to the so far as the order book positioning is concerned textile machinery division has come down from Rs4838 crore and Rs4663 crore. In the case of machine-tool division from Rs79 crore to Rs58 crore, this is so far as the order book is concerned.

So far as the current year is concerned since we have been executing the projects order we could be able to maintain the same level of sales what we have achieved during the first half of the year, may be there might be a slight difference of 5 to 10% subject to that one, we could be able to achieve the top line growth on the same level as what we have achieved during the first half year. And so far as the profitability is concern as I mentioned since the commodity prices and also the exchange fluctuation adding to the input costs which are going up. We are not very clear weather how that trend is going to be because inflation is one thing which is also a worrying factor where we cannot go for any price rise at this juncture mainly on account of recently only we have only revised our prices and at the same time since these are all project execution since there is already being tied up with financial arrangements also we have very little option to go for any price revision at this juncture so definitely whatever steps are required internally by the way of cost-cutting measures, by the way of reducing the rejections and also so those activities we have been taking steps so that at least we could try to maintain the profit, the profitability percentage what we have achieved in the first half of the year.

As far as the textile industry is concerned as you are all aware still they are in a deep problem mainly on account of cotton prices coming down and also yarn realization so even though the orders is what we have been executing currently is the only for project orders, the unitary orders still it has to come up and maybe after the initial first cotton season may be in November or December onwards the picture will be known probably during the 2012 January onwards there will be a clear indication where the price level is going to be there and how it is going to be. So far as our new products are concerned recently we have participated in the ITMA exhibition in Barcelona where we have exhibited 3 new products which were well received and well accepted by the customers. This is where LMW is always trying to come out with technology in products so that we are not lagging behind so far as the technology is concerned, the Comber, the blow room machine what we have displayed and also the Ring frame what we have displayed with compacting system, I think these things will definitely are on par with any other product internationally what is available, this will definitely give us the new businesses and whenever we introduce the new product even for the pending orders also we used to give those new machines, so that the way we are quite confident that whenever we come out with a new product we could be able to supply these new products so that we will add value to the customer's and that with that value addition they may also be able to make a reasonable margin also in their end products.

And the export market is also slightly better when compared to the previous period. Selected geographies our presence is there so we could be able to sell our products also and this current period as I have mentioned already the export performance is better mainly on account of there are also having supplying to our wholly-owned subsidiary in China, they have export sales of total sales of Rs196 crore this includes exports to our Chinese subsidiary to the extent of Rs48.29 crore. The total export as I have already mentioned April to September is Rs196 crore against Rs96 crore during the corresponding period of April to September 2010.

Otherwise so far as the machine-tool division is concerned there also division wise we have turnover. Actually textile machinery division we had a total turnover of Rs361 crore that is unit 1, textile machinery and in textile machinery unit2, Rs543, the total textile machinery division alone is Rs905 crore and machine tools division Rs112 crore and foundry division Rs45 crore. This is the breakup in respect of the division wise turnover. And machine-tool division also we find that currently slight some slowdown mainly on account of automobile industry because mainly our supplies to Tier 1 and Tier 2 jobs workers they are a little bit delay in taking delivery of their machine tools and textile machinery is concerned, yes we have been planning and then we have been manufacturing to the customer's specifications and at the same time whichever customer is ready to take delivery those names only we are including in our production schedule, so we're not holding any finished goods inventory so far as textile spinning machinery is concerned because all machines are tailor made machines. Only in respect of machine-tool division since these are all standard machines which we have been manufacturing and then finding out the customers who are ready to take delivery so they only we find some stocks are all we are holding. So this are all in fact our all over performance is concerned. I would like to answer any questions if you want over the performance.

Moderator

Thank you very much sir. We will now begin with the question and answer session. The first question is from the line of Punit Shahani from Enam Securities, please go ahead.

Question and Answer Session

Punit Shahani

Good evening Mr. R Rajendran, performance for the first half actually I just wanted couple of numbers. Firstly if you could give us the sales that we have done in the first half in the terms of the number of spindles?

R Rajendran

Number of spindles I do not have readily, I will be able to give you later.

Punit Shahani

So what would it be approximately, I do not want an exact number?

R Rajendran

Approximately I will be able to tell because the number of machines I have, we have two only calculate the average number of spindles, so far as the ring frames are concerned it is about 1.1 million spindles.

Punit Shahani

This is in the first half?

R Rajendran

Yes.

Punit Shahani

Execution has been phenomenal in the first half and as you mentioned textile industry as such is quite vulnerable at this point in time and what is the outlook in terms of the second half of the year because we have seen in the past as we have done pretty much better numbers versus the second half, second half is always better in terms of execution, do we think that such a scenario will continue in the current year also?

R Rajendran

We do not expect immediately that will change because it all depends on how the last quarter performance is going to the so far as the current quarter is concerned, during the third quarter is concerned since all are under project execution and also even the fourth quarter also we do not find any reason that it will go up substantially otherwise see the unitary machines only will add up for a further turnover and since the textile industry is now in a very deep crisis condition and the losses what they have incurred they are in no mood to go for further expanding their capacity or replacing their machine, they can always postpone. The capital goods industry is so vulnerable, this is the one decision which they make is as postpone all the capital investment for some time. We do not expect any up swings as far as the performance of the second half year is concerned. Maybe we should be quite happy if we could be able to repeat the performance what we have achieved during the first quarter.

Punit Shahani

In terms of China I wanted to get some sense if you can throw some color on what is actually happening? Are we going as per how we had planned, you have been mentioning over time that we have selling the specific separate Ring frames which are a niche products in this market are we continuing to see demand over three, what is the situation?

R Rajendran

Actually China is concerned that demand is still there but the issue is that we want to get our price so we are very clear because it adds up to our cost because when we send parts that parts are also subject to the customs duty so unless we go for a more local sourcing. and when we send it from here unless we get a better price. Of course we are now getting better price than what the local machinery manufacturers are offering but still on the account of the limited volume we do not want to increase our volume also substantially because once if we increase the volume more than the commitments for payments, of duty and everything else also goes up we should realize that much of a price also so we are still want to test the market. The market is there and we do not say that there is no market only thing the market is huge and when we do not want to, so far as the ring frame is concerned this is a machine where the profit margins are also very limited, where you source are quite a number of parts and then only you only assemble and then deliver. We want to be a little bit slow and then be very cautious also so we have been examining whether what other product we should be able to introduce there so that is under our examination may be we have two workout and then we have to come out not only the ring frame the other products also where we could source more parts locally than only it makes sense otherwise sending all the parts from here and then it adds up and probably we might not be competitive enough to enter into that market. Our entry into China is only to have a foothold in the Chinese market, try to establish our product and especially they are going for more and more automation. This is the right thing what we have introduced as a ring frame with automation and with automation it has given very good performance is concerned. At the same time we should get a good price also. Only it will take some time for the Chinese customer also to realize actually the benefit what they have been getting out of our product. So we want to be a little bit slow but at the same time our intention to grow there is very clear that we would like to see that the market there may be ups and downs but still they are expanding.

Punit Shahani

Are we looking to expand the portfolio in China this year or this may happen progressively over time?

R Rajendran

It will happen progressively and we do not want to increase substantially also we would like to see how best we can be able to add more value by the way of locally sourcing the component parts rather than sending all the parts, only technological parts will be sent here all balance parts they have to source from there. We take sometimes time it is a long project but we are quite sure that we can be able to make that model also a successful model.

Punit Shahani

Thanks I will come back if I have more questions.

Moderator

Our next question is from the line of Kirti Dalvi from Enam Asset Management, please go ahead.

Kirti Dalvi

Good afternoon sir. You did mention that we had taken some price rise in the month of June and it has not been fully reflected in our results. So do we see the margins recovery happening if we assume that full price discovery will happen in the second half?

R Rajendran

No corresponding the price rise what we have affected 3 to 7% and the commodity prices are going more than 10% we do not expect that we will have any maybe it will only compensate to the extent what we have increased but we do not expect that margin will substantially improve. Any improvement is possible only by the way of our internal measures may be small; these internal measures will help us at least to maintain the current level. We do not expect any improvement in the margins.

Kirti Dalvi

But sir have we done any commission cut or something like that to our vendor's as well?

R Rajendran

No vendors are concerned they have been coming out with saying that one important point which we cannot set aside is only the interest cost. They have been telling that they have to pay substantial interest for their borrowings and their working capital so this is one reason which we cannot even though we do not have any bank borrowings, we are debt free but not all of our vendor's so when they insist and again the exchange fluctuation is also one aspect in which you know for instance the system suppliers they have being telling on account of their exchange fluctuation, so we have no option except to charge you more. So these are all the issues which are coming and for that in order to compensate that one we are also internally trying to take as much as possible take cost-cutting measures and try to see how best we can be able to at least maintain the current levels of margins.

Kirti Dalvi

But there is no further improvements that can be possible in the second half?

R Rajendran

We do not expect unless the commodity prices come down. Suppose is the commodity prices for instance our major consumption is only with the respect of pig iron and the iron steel item. Those steel prices are all going up, if in case it comes down definitely it'll have some improvement in the margins.

Kirti Dalvi

In terms of the top line since we have 4700 crore order book and would it be possible to maintain this 30% growth momentum in the second half as well?

R Rajendran

What we have planned during the current year we could be able to achieve as I mentioned what we have performed during the first half of the year we are quite confident that we may repeat during the second year half-year also, top line is concerned we are quite confident because all of project orders are being tied up so which I think next month onwards we are going to take a with NTC order also, so we are confident that we will be able to maintain the top line. Only thing the bottom line it all depends upon the input cost apart from our own internal measures, may be the we may show some improvement also.

Kirti Dalvi

You do not see any further deterioration in our margins?

R Rajendran

We do not see.

Kirti Dalvi

So probably the first half margins are definitely...

R Rajendran

It can be maintained.

Kirti Dalvi

With the similar type of top line what we did in the first half?

R Rajendran

Yes.

Kirti Dalvi

In terms of the order book if you could you break it up in terms of spindles?

R Rajendran

No, I do not have these spindles breakup we have only the total value and then I do not have the individual spindles.

Kirti Dalvi

So all put together the machine tools and the textile machinery division put together we have a closing order book of Rs4700.

R Rajendran

4711 crore.

Kirti Dalvi

And the inflow was around Rs218, all put together?

R Rajendran

Rs218 all put together against Rs585.

Kirti Dalvi

If you could give us the consolidated figures, just broad figures like the top line, EBIDTA and PAT, because we have only standalone results with us, Including the China subsidiary?...

R Rajendran

I did not catch your question.

Kirti Dalvi

We have a Chinese subsidiary if you could club together and if you could...

R Rajendran

No, we have not clubbed so far as subsidiary is concerned that results we have not, we have now two subsidiaries one is the LMW textile missionary, Suzhou, those operation results we have not considered so far as these results are concerned on a stand-alone basis.

Kirti Dalvi

But year end results will be consolidated?

R Rajendran

Here in results will be consolidated, apart from that our LMW Machinery Limited that is our other subsidiary which we have come to our fold from 15th August onwards so the results will be appearing only during this current quarter. But consolidation will happen only for the financial year ending 31st March.

Kirti Dalvi

But do we have any operational performance any update on that? How those subsidiaries have done in the past?

R Rajendran

Yeah, so far as we have but of course we have not and there is no disclosure requirement so far as these are all a stand-alone subsidiaries so we thought it is only better to make it at the end of this period and then disclose.

Kirti Dalvi

But we are not losing money on that, profitability wise?

R Rajendran

Profitability wise LMW ML is concerned it is profitable, so far as the Chinese subsidiary is concerned still we would be losing.

Kirti Dalvi

Do we expect by the year end we will see some gains in the bottom line?

R Rajendran

We do not expect because taking into account the Chinese market conditions we think we've do not expect any improvement. Maybe in the next financial year we may be able to see a breakeven in Chinese operation.

Kirti Dalvi

Just a question on the balance sheet, on loans and advances and other current assets have moved up on a sequential basis compared to the March, do we see this further getting bloated by the year end?

R Rajendran

No it won't go up because these loans and advances mainly whatever advances we have paid for our capital goods of those things will be there, so otherwise things will get adjusted as and when those supplies generally would be able to get, it has moved from Rs202 crore to Rs222 crore, so that'll get adjusted during this period.

Kirti Dalvi

Does that include the advances to suppliers as well?

R Rajendran

Yes, loans and advances include advances to suppliers.

Kirti Dalvi

So is that we have provided more, we have given support to our vendor's something more?

R Rajendran

Yes, we have certain capital goods, certain advance payments they have been insisting. Earlier the imports in spite of our opening in LC they have been insisting for 20% to 30% down payment also so that is one of the reasons the advance amount has gone up, but that'll get most probably adjusted before the end of this financial year as and when they get affective supplies.

Kirti Dalvi

Since we are already through with the first half so we have a better outlook on the current year, but what is the outlook on the FY 13?

R Rajendran

FY 13 we are depending on our new products, whatever that new products we have been coming out, so those new products will be able to make it, at least till the first quarter of the next financial year we are very clear unless our projects are going to be prolonged till first quarter of 12-13. So afterwards only we had to wait and see how the market is going to react and how the other competition is also picking up even domestic also you will find all the competitors have also set up their manufacturing base. So we had to wait and see how the market is going to behave and how so we had to wait and see. Till June we are very clear but beyond June we have to wait.

Kirti Dalvi

But having 15 to 20% growth would be a tough task for FY 13?

R Rajendran

No, not a tough task and we have the capacity, since we're already created the capacity so once if they wanted it definitely we would be able to have a growth of about 10 to 15% if possible.

Kirti Dalvi

Any major Capex?

R Rajendran

No, current year whatever we have budgeted, we have budgeted around 130 crore that we will be spending mainly for modernization and up gradation and foundry also we have been going for modernization. So those things are normal and also our advanced technology center there also we are incurring but still there, the revenue and all will come after some time.

Kirti Dalvi

Would be the spending the similar amount in FY 13 as well?

R Rajendran

Against to the extent of depreciation and we will be spending otherwise and we will add some windmill so that we can get some benefits also.

Kirti Dalvi

Thank you very much and wish you good luck.

Moderator

Next question is from the line of Ranjit Sivaram from Batlivala and Karani Securities please go ahead.

Ranjit Sivaram

Good afternoon. Just to harp upon the volume question if I look at your Q2 to this year and Q2 last year what is the volume growth that we were able to achieve?

R Rajendran

Volume growth we could be able to achieve almost in all the products. In all cases we were able to achieve nearly about 15 to 20% depending upon the product for instance in the case of ring frames for instance the spinning machinery are concerned they have increased our numbers of course numbers are less, 921 last period, current period is 837, but the number of average spindles are more. That is why I is said that the total number of spindles what we have delivered are 1.1 million and if you take at proprietary. Proprietary also there has been an increase of 442 against 966 machines previous period, current period it is 1408 and ring frame as I mentioned from approximately around 900,000 to 1.1 million spindles, that is the volume growth. Similarly in the case of machine tools division also again 394 machines, it is 642 machines.

Ranjit Sivaram

And just if you could convert it to spindles Q2 is about 1.1 million spindles so approximately Q2 last year would have been?

R Rajendran

9,00,000, this is for the period both up to September

Ranjit Sivaram

Okay it is H1.

R Rajendran

H1 is around 1.1 million spindles and April 1st to September 10th is about 900,000.

Ranjit Sivaram

So this cash is Rs642 crore, how much is advances?

R Rajendran

Advances is Rs470 crore.

Ranjit Sivaram

But looking at your order inflow you are telling us come down but your advances have gone up sequentially?

R Rajendran

Actually the advances have not gone up; it has reduced from Rs484 crore to Rs470 crore.

Ranjit Sivaram

And majorly this cash which has come down is due to your deployment due to the investments of Rs54 crore and apart from that?

R Rajendran

Mainly on the account of the buyback and the deployment of Rs54 crore for buying the 50% subsidiary.

Ranjit Sivaram

Regarding this commodity, last time we had a discussion you told some of the pig iron last year we had sourced from China at a cheap price so this year we were not able to repeat the same?

R Rajendran

No the Chinese sales were all earlier it was quite competitive per ton wise we could have at least about 10% sale but unfortunately due to this dollar price hike so the difference has gone so now it is almost the same so that is one of the reasons that I also mentioned that since the commodity price are going up and whatever the price increase what we have been affected has been totally offset.

Ranjit Sivaram

So this year we do not source anything from China?

R Rajendran

No, it is not that we have not been sourcing, we have been sourcing from China especially in respect of all our sheets requirement we have been sourcing, and similarly for all our foundry requirements chemicals we have been sourcing from China, so wherever it is possible but the price advantage is narrowed down mainly on account of these exchange fluctuations.

Ranjit Sivaram

Exchange fluctuation can you put a number to that?

R Rajendran

About 10%, to that extent we have also gained something on account of our exports, whatever exports we are affected, there is a natural hedge so far as our imports and exports are concerned but at the same time it goes for our input cost, it comes to a revenue but at the same time it is also increasing the input costs also.

Ranjit Sivaram

And this export figure of Rs196 crore you have told for the quarter so for the half-year....

R Rajendran

For the half-year.

Ranjit Sivaram

Lastly for the CapEx of Rs130 crore how much has been deployed?

R Rajendran

Rs77 crore we have already spent.

Ranjit Sivaram

How about the order inflow outlook, what kind of target you have order backlog for the end of the year?

R Rajendran

Maybe it will get reduced because we do not expect the same kind of flow of order maybe we may end up with a reduction in our order book only. It will be around Rs4000 crore the balance probably will be executing it during this half-year.

Ranjit Sivaram

Last time you had told Andhra and north you are seeing some...

R Rajendran

No, those are all the projects which we are currently under execution, with that only we would be able to see our plant is also fully operational and try to maintain our sales also. But for the project our sales might have been also been very low.

Ranjit Sivaram

Thank you sir.

Moderator

Our next question is from the line of Pranav Gokhale from Religare Asset Management, please go ahead.

Pranav Gokhale

Congrats on a good set of numbers. Was this order inflow of Rs4633 crore, what is the execution period, if you could give the bifurcation between the project and product mainly?

R Rajendran

Actually so far as this order book is concerned as I already mentioned this is backed by 10% advance but at the same time we are giving a choice to the customer stating that whenever they are ready with the balance funding this is almost 100%, 90% balance payment plus applicable tax together which is again 100%, so when they are ready and firmed up with funding only afterwards we take up for manufacturer. So the strike rate is in the region of about 30 to 40% only, even though our order book is full but whichever customer is ready and some of the customers who have placed an order waiting for a good opportune moment we leave it to the customer choice so before 45 days whoever is ready with tying up with the funding arrangement so those orders will only be taken up and fed into our manufacturing system and then advance supply chain planning will procure whatever components we will have to procure outside and whatever we have to manufacture, we plan on those bases and then manufacture the product also. Theoretically, yes this order book may last nearly about two years but actually in practice it is not like that we may be having holding some orders even more than two years also, so they are all waiting for a good time and when they want we could be able to execute the order as and when it is maturing.

Pranav Gokhale

Are you seeing some delays in terms of these customers are asking you to sort of postpone these orders in some way?

R Rajendran

That is there all the unitary machines and other, even though they have placed an order they are not willing to take delivery even though order has matured for delivery, so we also do not insist because unless they make tie up with the balance funding what is the use of insisting. But some of the customers who are all taken for projects since the TUF is also ending by March 12th so they would like to see that the orders are also executed and then they also placed an order so it is going ahead on those bases. But of course we are also taking up with the government that the textile industry has to be supported and with that only they have already revived the DEPB scheme and they are also taking up through our association stating that the TUF benefit should also be extended so that major beneficiary is the spinning industry who have taken this TUF loan because of the interest subsidy of about 4% but now seeing the interest cost has gone up so much even that 4% subsidiary is not sufficient. Actually the interest rate the way the RBI is hiking every now and then I think earlier when they charged 7 or 8% and then when they could be able to get 4 to 5%, the cost of investment has become very small and their competitiveness is so much. Now the competitiveness is in total loss again we have gone back to our earlier times of our interest. So the interest rate hike is a concern from our customer point of view we are more concerned about that.

Pranav Gokhale

Your customers get TUF benefit once they have placed an order before March 2010 or?

R Rajendran

Once you have placed an order and give an advance and they tie up for funding before the 31st March they are entitled.

Pranav Gokhale

So if I take this to your answers to this order inflow actually a number going down, should not this be a positive factor that TUF is ending ?

R Rajendran

TUF is extended suppose the government says that in the month of January or February a policy announcement. Suppose it is extended then people will say let us wait why should we rush through and let us place this afterwards that is why we have to wait and then see till the policy announcement is made by the government.

Pranav Gokhale

Just wanted to understand except the December 2008 and March 2009 quarters the H2 numbers except the March 2009 period the last four or five years have always been higher than the H1 numbers, do you see that has always been the trend, so now this year you have talked about a flattish revenue as compared to H1 do you see anything changing?

R Rajendran

No, because of the textile industry current peculiar situation, you know that the textile spinning industry has lost heavily during this current financial year so we do not expect that there is going to be sudden revival and then they will go for more and more for modernization and then replacement. At least they will see how well they can be able to recover their losses what they have been incurred on account of that, cotton as well as yarn prices realization. So we do not expect that kind of increase what we have been seeing in the past. We hope that we could be able to maintain the level what we have achieved during the first half, which we're confident as we have been executing the projects.

Pranav Gokhale

Just one question on your Chinese subsidiary LMW Textile, how much investment has been made till date on the Chinese company?

R Rajendran

We have made so far about 5 million, our total commitment is about to US\$12.5 million, as on date it is about \$5 million so we have got the balance commitment we have to invest since we have already committed we have to invest and there we are planning to have our own plant and then building so that we do not pay rental, so that anyway having gone there are trying to establish the market so we want to be there permanently and then try to take the advantage of the local market conditions is concerned.

Pranav Gokhale

Is there any debt on that company?

R Rajendran

No, as on date no. What we have invested in equities is only there is that company is not having any debt even as on date. And if it all we go for projects in case we have to invest in our balance \$7.5 million and for a project if anything is required probably that company will raise some loan internally and they will go ahead, as our investment commitment is concerned total is only US\$12.5 million.

Pranav Gokhale

Because this company was supposed to actually manufacture machines there, so right now it is not manufacturing machines?

R Rajendran

It is manufacturing machines but it is only parts, certain parts are being manufactured locally and then major parts are being sent from here, nearly about 60% of the parts are sent from here. The only problem is that 60% of the parts attract the customs duty higher than what the normally raw material and other things for example castings attracts only 3% duty, where as if you send parts it attracts 9% customs duty so when all these things adds together the cost of manufacturing goes up, so in that case pricewise we may not be competitive. So our intention is try to source as much if possible locally so that this import duty is totally avoided so that we will be cost wise we will be competitive and technology wise yes, we could be able to give better technology for a better price, definitely better than what the Chinese people are all selling.

Pranav Gokhale

If I understand correctly critical components go from India?

R Rajendran

Yes.

Pranav Gokhale

Have you have your dedicated vendors already who are sourcing locally, have having established your vendor base?

R Rajendran

We have established certain vendors and we are also having a factory where certain sheet metal parts and other things we have been manufacturing there itself. Certain parts which are not critical which we have been manufacturing in our shop itself by way of procuring raw material sheets and other things which we procure, so panel cover all those things we have been manufacturing there.

Pranav Gokhale

Just in terms of that company those had an order of about 339 machines which is given in the annual report, what has been the sort of attraction over there have these orders were already been executed about...?

R Rajendran

We have executed about 50% they have executed balance 50% is still they may be able to execute during this financial year.

Pranav Gokhale

How is the ring frame market in China picking up, is it picking up as per your expectations and maybe your market share or is it very...?

R Rajendran

See the product which we have introduced has been well-accepted mainly on account of the automation because in China also they are finding it very difficult to have manpower, so this ring frame with auto doffer is a very good and Chinese auto doffer is not performing so well where as the auto doffer what we have introduced is performing well so that way we have got definitely a chance to increase our population of the ring frame over a period of time. Currently according to our market indications only 10% of the textile mills they are there are having this kind of automation. So there is definitely a scope they say that over a period of time may be another 10 or 15 years' time it may go up to 60%, so definitely there is a chance for replacement and also we are supplying the long width machine against the Chinese machines of short width machines of 480 spindles, ours is about up to 1200 spindles. So definitely China have been the largest installation number of spindles in the world so we hope that the future market is going to be China and India only.

Pranav Gokhale

But what could be the annual market like, the capacity is about 4 to 5?

R Rajendran

They are adding around 4 to 5 million spindles every year, even though in the recessionary period also they are adding their capacities.

Pranav Gokhale

And out of this Speed frame would be?

R Rajendran

As of now we are consigning only on the ring frame now, we are not introduced any other product so we want to introduce one after another only after the detailed study, detailed market study only after that. And they should also be able to get a better price and a better price lower than what the Chinese customers are all paying.

Pranav Gokhale

Just on the last question on the gross margin per machine if you track that metric is that the number for this half per machine gross margin lower than what you have done last year in Q2 and in H2 you expect it to go further low?

R Rajendran

Maybe we could be able to maintain.

Pranav Gokhale

Okay gross margin to machine we would be able to maintain. Thank you so much and all the best.

Moderator

We have this next question from Rahul Bhangadia from Lucky Securities please go ahead.

Rahul Bhangadia

Thank you for taking my questions. I'm sorry if you have already given this number out but if you could help us with advances from customers numbers that you routinely show on the balance sheet as of September this year, March this year and September last year?

R Rajendran

31st of March we had Rs4603 crore and during this half years I mean first quarter we have received an order of Rs547 crore and after execution and 30th June we end up with Rs4838 crore and during this quarter's July to September we received Rs180 crore and we have executed Rs355 and we are ending up with an order book of textile machinery Rs4663 crore.

Rahul Bhangadia

So we can assume that 10% of that are the advances from customers?

R Rajendran

Yes, Rs740 crore is the advanced money what we have been...

Rahul Bhangadia

What was the same number last year, September?

R Rajendran

In advance and order September is Rs487 crore slightly lower.

Rahul Bhangadia

Slightly lower this year. Just one question a little off, is there a problem with Tirupur on the chemical side over or is it still going on?

R Rajendran

No that is not impacting so far as LMW is concerned, we supply machinery to the spinning industry but that is going on it has become a political issue but those things will also get solved only thing that issue is bound to be there and some step government would also likely to, Tamil Nadu government is also taking affective steps to see how best they can able to have a common facility effluent treatment facilities and all those things. I think it is only temporary over a period of time I think considering taking into account the potential of Tirupur what they have been having by way of an export trainings and textile industry in particular. So I think this issue will get solved.

Rahul Bhangadia

That's it sir. Thank you.

Moderator

Our next question is from the line of Naga Deepika from Capital Market. Please go ahead.

Naga Deepika

All my questions have been answered but just want to get, if we ended the export sales for the quarter?

R Rajendran

Export performance for last period that is 1st April to September 10th textile machinery division is, Rs84 crore than foundry Rs12 crore, total Rs96 crore last half year, current-year textile machinery division Rs171 crore and foundry Rs24 crore, total Rs195 crore. So textile machinery division turnover includes our exports to China, it's about that is Rs48 crore against Rs35 crore corresponding period last year.

Naga Deepika

Okay and can you just give me one more data point. What is your acquisition cost of 50% JV of Reither?

R Rajendran

Rs54 crore. Rs12.5 crore will be capital of Rs. 10 each. We acquired by paying about Rs. 43, total we paid an offside about Rs54 crore. Our investment is Rs54 crore.

Naga Deepika

Okay, thanks sir.

Moderator

Our next question is from the line of Bharti Gupta from Sushil Finance. Please go ahead sir.

Bharti Gupta

Good evening. I just happen to miss on you order book front and the places of; can you just repeat that thing?

R Rajendran

Order book on 1st April textile machinery Rs4603 crore and order received during the 1st Quarter is Rs547 crore and executed Rs312 crore. At the end of the last quarter it was Rs4838 crore. The order received during the current quarter July to September Rs180 crore, and execute Rs355 crore. Balance closing Rs4663 crore, textile machinery division. Machine tools division beginning of the year it was Rs94 crore. We have received Rs38 crore during that quarter, executed Rs53 crore and closing Rs79 crore and beginning of July to September quarter we have Rs79 crore. We have received Rs38 crore and we executed Rs59 crore, the closing is Rs58 crore.

Bharti Gupta

Okay, just from machine tools?

R Rajendran

Machine tools, yes.

Bharti Gupta

Okay and sir foundry division anything?

R Rajendran

Foundry division we don't have any, these are all pending orders.

Bharti Gupta

Okay and sir one more question on a raw material front. If you can compare on the year-on-year basis that is for the first half, the affective raw material cost has increased at close to 46%. So can you just give me the breakup of how much of it is leads to imports and the indigenous part?

R Rajendran

Actually the raw material price increase is in respect of mainly to pig iron and then iron and steel item and then imported items also constitute on account of the exchange fluctuation and also price increase also both put together. What is the breakup you need?

Bharti Gupta

I need the breakup the cost of the imported raw material and the domestic procurement and the impact of in the form of what is the exchange fluctuations impact on your raw material cost and your price increase on the raw material?

R Rajendran

Both put together because we anyway ultimately it comes to the cost you know, either exchange fluctuation or price increase everything is reflected by way of price only so as far as the imports are concerned it is about 12% and so far as the indigenous material commodities prices are concerned it ranges from 12 to 14%.

Bharti Gupta

Okay that will be the impact?

R Rajendran

Yes, that is the impact, the overall impact.

Bharti Gupta

Thank you.

Moderator

Our next question is from the line of Madan Gopal from Sundaram Mutual Funds. Please go ahead.

Madan Gopal

Could you share with us in the financials for the JV companies for the company where you bought 50% stake LMW Machine Works Limited, what would be the financials for the company?

R Rajendran

No actually first-half here it is only their show.

Madan Gopal

Just for the FY11?

R Rajendran

Yes, FY11 only the current period August-September only it has come in our management but still they are positive only. They have made a turnover of Rs70 crore till the first half-year, the current half-year and they made a marginal profit of about Rs3.5 crore.

Madan Gopal

And last year profits would be?

R Rajendran

Last year FY11 they have made a turnover of nearly about 170 crore and they made a profit of about 10 crore.

Madan Gopal

Is there any change in the business once we have taken over in terms of any export orders, etc., going away?

R Rajendran

Actually we would like to keep the unit as an export-oriented unit so that we have the benefit of duties and other things and also we would like to manufacture full machine, all these years they have been manufacturing only sections and then parts, now we have taken a decision to manufacture full machine and then export it also. In fact last week only we could able to send the first consignment of full five machines with 20 containers to one of our export customers, we could be able to send it from there.

Madan Gopal

Will there be any differential pricing on the products, mainly on the joint-venture companies?

R Rajendran

No, the price will be the same.

Madan Gopal

So the same capacities you will be operating on a fully built machine so what is the potential turnover that the company can do as a stand-alone unit?

R Rajendran

As a stand-alone unit it may go up to many minimum to about 200 -225 crore if possible that is the capacity of about 0.5 million spindle is their capacity so they can go up to 2.5 to 2.75 depending upon the order what they are able to get it. The potential capacity they can go up to as the quantity they can go up to 300 to 350 machines.

Madan Gopal

In terms of value added products you are saying that you are going to sell machines now so the profit margins can be substantially better than what they were earlier?

R Rajendran

The problem is on account of the competition we have to see the benchmark prices also so that is one of the reasons and as an entry they would also like to match LMW prices and we would like to see that at least some value addition comes to the customer so that why should they come and then buy our machines always there should be some value proposition, so that is why we have all ultimately as for our capital goods are concerned the price makes the final decision when all technology parameters are all the same only price issue is the major issue. So we would like to be competitive and try to maintain our market share or so. So that is the reason even though there is some strain in the margin but we would like to see that always to retain the customer and try to get the orders also on that basis, repeat orders on that basis from customers.

Madan Gopal

LMW, when was the last pricing action done? Do we see improvement in margins in the second half because of lower raw material prices?

R Rajendran

No, we do not see any lowering of raw material prices because almost all steel producers and almost all vendors are almost going on increasingly mainly one of the reason they are citing is inflation, second thing is interest cost we do not find any ray of hope that the commodity prices are going to come down and we do not see anything. So we are quite sure that maybe we could able to maintain at the current level we may not be able to improve if at all if there is any issue further probably all those things can be to some extent get balanced by way of our taking internal measures or cost-cutting measures that will to some extent offset the cost escalation.

Madan Gopal

And when was the last pricing action?

R Rajendran

Actually we have revised from April 1st 2011 we have made a revision but it came in to effect by the middle of June.

Madan Gopal

And how much of that?

R Rajendran

3 to 7%.

Madan Gopal

Lastly in terms of the order book and the new orders what is the composition of project orders to unitary machines?

R Rajendran

Project orders is around 60% balance 40% is unitary machines.

Madan Gopal

And of execution?

R Rajendran

Execution, currently about 85% of the project orders only 15% is unitary machines.

Madan Gopal

Thank you.

Moderator

Our next question is from the line of Kamlesh Kotak from Asian Markets, please go ahead.

Kamlesh Kotak

Wanted to understand the competitive intensity particularly in Indian context because I understand many of the global machinery manufactures have set up shops in India so how we see the competitive pressures both in terms of our market share and the pricing discount or the differential if any?

R Rajendran

So far as competition it is expected it is not an unexpected thing because the market is there only in India and China so definitely they have been all along harping when they could be able to have their presence here so that is one of the reasons we would like to see that our competitor is not in our backyard so that is one of the reasons we could be able to acquire the balanced 50% so that this facility is wholly available. And of course competitors are also coming up earlier we had very few two or three manufacturers now totally we have about six manufacturers are all in the textile machinery business. So definitely their advantage is that they are going to procure local parts and at the same time all along they have been invoicing in either in Euro or in Swiss francs or in Japanese yen now they are going to invoice in Indian rupees so that it is the advantage they have been having. But they have to make definitely now investments and then price wise they have to benchmark LMW prices they cannot quote more than what LMW quotes so they have to give at a lower price. But for us as well as for them since the commodity prices are one in the same so how is it possible for them to give it at a lower and at the same time any business they would like to make big money not that to service to the Indians customer what LMW is serving all these years. So as far as our pricing policy is concerned it is very transparent it is uniform to all customers and then there is no negotiation so far the prices are concerned. So our commercial terms are also very clear unless you pay you may not be able to take delivery, you have to pay 100% in advance so these are all the values which we have been consistently following and also retaining our customers and trying to satisfy our customers requirement also. We hope to retain but some something when they comes some other player comes then definitely they will also take some share whoever is there in these major market shareholder, otherwise how they will also as on introduction they will do all those things also but pricewise still we want to be at least 10 to 15% we want to be always better when compared to our competition so with that we could be able to satisfy our customers and able to retain our market share as much as possible and then try to utilize our capacities and try to go on like this.

Kamlesh Kotak

Any Chinese competitor also, the discount...?

R Rajendran

No Chinese, only European manufacturers. Chinese they did not make any impact over the Indian market is concerned. There are only there they are a very strong in their country but they could not be able to come out very strongly here because they could not be able to at least prove their product because technologically all the European as well as our Indian manufacturers we are far ahead when compared to the Chinese manufacturers, so that is one of the reasons. But only price wise since their local country then they are able to give it at a very highly competitive price so they could be able to manage there only not in our country.

Kamlesh Kotak

What could be a rough market share in terms of the overall Indian markets to say?

R Rajendran

About 55% to 70%.

Kamlesh Kotak

And our products compared to the imported parity kind of price it was at 30% plus discount?

R Rajendran

Now it is about 10 to 15%.

Kamlesh Kotak

Because of more localization by the OEM?

R Rajendran

Because of more localizations and also because of all along now again in certain parts they have to depend on import then in this case the currencies have gone up especially Euro and Swiss franc have gone up substantially, so they may not be able to compete with us.

Kamlesh Kotak

Secondly just wanted to understand how beneficial for the textile company in the sense of TUF incentives and what is the sunset clause what is the kind of government roadmap about this thing?

R Rajendran

Actually we have taken up with the government. First thing what the new minister has done is only is the revival of the DEPB benefit for the textile industry so that is benefiting on their exports and again the TUF benefits is there till March 12th and we have been taking up with the government for extension also. Textile industry is a major industry and also where the employment is also large amount of employees are also employed, so government would definitely support by way of bringing out some textile parts and also the concept of wherever they needed cluster concept, so all these things will definitely help the textile industry and vis-à-vis ultimately it will help the textile spinning industry also because all these down processing, weaving, processing and then garment and knitting in the industry they need yarn, yarn as a commodity still there is a gap. And again another Indian context, India is a definitely producing more cotton than what we have been consuming, since there is a gap between what we have been producing and what we have been consuming, so still there is a scope of additional installation also in this country.

Kamlesh Kotak

Okay so thank you very much.

Moderator

That was the last question. I would now like to hand over the conference to Mr. Naval Seth for his closing comments.

Naval Seth

On behalf of Emkay Global I would like to thank you all for joining us on this call today, thanks a lot to the management as well.

R Rajendran

Thank you very much for all the participants.

Moderator

On behalf of Emkay Global that concludes this conference. Thank you for joining us you may now disconnect your lines.

-
- Note:**
- 1.This document has been edited to improve readability.
 2. Blanks in this transcript represent inaudible or incomprehensible words.

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: www.emkayglobal.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.