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GEARING THE FUTURE

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11th February, 2022

To,

The Manager (Listing), **The BSE Ltd.** **Mumbai**	The Manager (Listing), **National Stock Exchange of India Ltd.** **Mumbai**
Company's Scrip Code: 505700	Company's Scrip Code: ELECON

Sub : Transcript of the Investor Call held on 8th February, 2022

Ref : Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir,

With reference to the above referred Regulation and in continuation of our letters dated 3rd February, 2022, 7th February, 2022 and 8th February, 2022 respectively, please find attached herewith the transcript of the conference call held on 8th February, 2022 for Q3 for the Financial Year 2021-22.

The same is available on the website of the Company at https://www.elecon.com/investors/financial-reports.

You are requested to take the same on your records.

Thanking you.

Yours faithfully,
For Elecon Engineering Company Limited,

Bharti

Bharti Isarani
Company Secretary & Compliance Officer

Elecon Engineering Company Limited V.V. NAGAR

Encl.: As above

Gearing industries. Gearing economies.

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"Elecon Engineering Company Limited Q3-FY22 Earnings Conference Call"

February 8, 2022

MANAGEMENT: MR. PRAYASVIN PATEL – CMD

MR. KAMLESH SHAH – GROUP CFO

MR. NARASIMHAN RAGHUNATHAN – CFO

Binay Sarda: Good Morning to all the participants on the call and thanks for joining this Q3 FY22 earnings call for Elecon Engineering. Please note that we have mailed out the results and you can also see the results on our website as well as it has been updated in the Stock Exchanges. In case you have not received the same, you can write to us and we will be happy to send this thing over to you.

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

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

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

Prayasvin Patel: Thank you. Good morning everyone. Ladies and gentlemen, a warm welcome to our Q3 FY2022 conference call. The company's performance continues to be growth oriented as positive outlook.

Discussing the results at the standalone level the total operating income stood at Rs.184.8 crores compared to Rs.228 crores in the corresponding quarter of the previous year. EBITDA on absolute basis stood at Rs.33.6 crores as compared to Rs.37.6 crores during the corresponding period of the previous year. This translates into an EBITDA margin of 18.2% in Q3 FY22 compared to 16.5% in Q3 FY21. We close this quarter with a net profit of Rs.15.8 crores as compared to Rs.12.4 crores during the corresponding period of the previous year, reflecting an increase of 26.9%. This quarter's performance may not be comparable with that of Q3 FY21 that is last year since Q3 FY21 performance was after the pandemic lockdown and related business in that. We have mitigated price increase on raw materials and international logistics cost though it has impacted to some extent.

Let me highlight few points related to the results. We are witnessing strong order intake in gear business and remain positive due to favorable demand and we are also eager to see the outcome of recent India budget where substantial spend towards infrastructure and capex is expected. Our efforts to increase exports is yielding good results.

Coming to the MHE business we continued to focus on profitable product business. Efforts are being taken towards completing the punch list items being part of the COD process to hand over legacy projects. Moreover, we have been granted arbitration award worth Rs.63 crores plus in our favour, while counterparties are pursuing appeal proceedings, Elecon is confident of recovering the same. One of the key focus areas of the management has been in terms of debt reduction. And this clearly reflects in our interest costs which have come down significantly.

Coming to consolidated financials of Q3 FY22, the operating revenues were Rs.270.9 crores while we recorded an EBITDA of Rs.52.3 crores. The EBITDA margin has improved to 19.3% in Q3 FY22 as against 18.9% in Q3 FY21. The Consolidated profit after taxes stood at 31.5 crores for Q3 FY22 as compared to 24.7 crores in the corresponding period of the previous year and increase of 27.8%. All our overseas entities have now turned profitable. We are working towards further improving our market reach in USA, Canada, Latin America where we are witnessing positive momentum in order intake and revenue. We are witnessing gradual pickup in demand on the back of recovery in economy and we saw a significant ramp up in the order booking with orders worth Rs.211 crores booked in the gear business and orders worth Rs.30 crores in the material handling business during the quarter. In the gear business the orders on hand is Rs.345 crores and in MHE business the orders on hand are Rs.66 crores.

To summarize, we continue to focus on strategies to create long term value for our shareholders. This includes becoming debt free at the consolidated levels by FY23 and debottlenecking and ensuring better utilization of available capacity; working capital optimization and cost control lead time reduction. We are confident that streamlining of existing operations along with reduction in debt is likely to lead an improvement in EBITDA margins and overall profitability. Moreover, the proposed increase in government capital expenditure announced in the recent budget augurs well for the industry and is likely to result in substantial growth for the sector in the coming years.

Thank you all. We will be happy to address your specific queries about the business going forward. Thank you.

Binay Sarda: Thank you. Anyone with a question request you to please raise your hand. We will just wait for a moment before the question queue. We have the first question from Mr. Subham. Please go ahead.

Subham: Thank you for the opportunity and good morning team Elecon. So my first question is related to the gear division. So if we see in the last few quarters our total order in hand has been quite range bound, it has been around 340-350 crores. So I wanted to know as per your internal estimates and given that now there has been a lot of announcement regarding investment in infra and all, how do you expect this order inflow to see a decent uptick going forward?

Prayasvin Patel: So, basically to tell you honestly earlier in the last couple of years, what used to happen is the orders would come in spurts. So there was no consistent order inflow which was healthy. Now the reason why I say healthy is because you need a backlog so that you can start planning, design, engineering, material procurement, all this takes time. So with this consistent flow, which is remaining right now is a very healthy situation. And apart from this, in the recent month or two we are seeing an upsurge of orders. So this is a very healthy scenario and this is in spite of the fact that the prices of steel have increased as well as other inputs have increased. In spite of all this the ordering flow has been healthy, the price realization has been good so all in all it's a very healthy centre.

Subham: Fair enough. Sir, secondly now there is a hypothesis which says that globally in US and Europe specially the steel prices are increasing significantly and going forward it will further increase because of their various CO2 emission norms which are coming into play. So in that situation given the steel price remaining quite low as far as India is concerned. So, there may be a situation where in engineering product out of India can see a very high growth. So, in this light what is your view and how are we placed in that scenario?

Prayasvin Patel: Normally, what we have seen is steel prices internationally find a balance and remain more or less similar and generally speaking, all over the world because otherwise steel tends to migrate from one place to the other in a big way. China had originally if you remember, years ago, China had a lower prices than the international market and therefore the sales of Chinese steel was quite high but over a period of time they find an equilibrium. So what I believe is it may happen temporarily, but after a while, it will have to be at the same level. But as I told you, if that happens, then naturally we will be at a much better position because our products would be cheaper than the competition which would give us a definite advantage.

Subham: Right. And in the last call, you did mention that you are looking at few opportunities globally, especially in America. So is there any breakthrough that you would like to share with us regarding acquisition or any other update?

Prayasvin Patel: No, there has been no development whatsoever. In case anything comes in definitely there would be an announcement.

Subham: Right and lastly on the MHE division, now again, on the last call you did mention that the EBIT reported in last quarter could more or less be maintained but now again we have reported close to Rs.7 crores of loss. So I just wanted to understand how can we see this division going forward? Where will the revenue stabilize? Where will the margins stabilize and given now that we are at the last leg of legacy order and also as you can mention as to how much is the retention money that is still left that we can get out of this business?

Kamlesh Shah: In regards to what you mentioned about the Q3 we have seen some hit in our MHE business. However, it is just non cash item which is there, which came as a part of a settlement with the customer whenever we are closing our legacy projects or other projects as a part of that. At the same time, you've also seen that there is an arbitration award also which is there in our favour which we are pursuing, though the customers prefer further appeal to the next level of the arbitration. We are working towards the same and we believe that so far the current businesses are concerned we are quite comfortable in terms of our profitability and liquidity and we are conservative in terms of selecting the prospects.

Subham: So, is it fair to say the Rs.7 cores loss was only one time now and going forward we would not report loss in an ideal situation.

Prayasvin Patel: See what my colleague was trying to explain to you is first of all, there is no cash loss. So we have to understand that it is not a cash loss that we are talking about, number one. Number two, is when we are trying to close contracts aggressively, at the end the customer quite often negotiates with us that this is the amount that we will pay and this is the amount we won't pay. So it is a situation of give and take. Apart from that, we have to understand that suppose we do not agree with the client then we have recourse to arbitration and then from arbitration it goes to the courts and so forth and then you get a decision after 6-7-8-10 years quite often. Now, quite often the management takes a practical approach whether it is worth letting a certain amount go and still get majority of the amount rather than fight with the client. Because first of all, it creates a bad feeling on top of it you will get money after 8 or 10 years where that value will depreciate to a very large extent. So considering all these factors quite often, we have to take some practical decisions which we take when we tell you that as of now, we are at a zero level that means that is the contracts and not being closed this is what we see the scenario. In case we have to take certain practical decisions of this kind, then it gets impacted. But as I told you in the operations of MHE over a period of time we have grown the organization considerably and we have seen to it that we and change the entire dynamics of the organization, so that we at least go towards zero level and there are no cash losses. As a matter of fact, from next year onwards it will start making a reasonable amount of money. So all this is being done and aggressively on the other hand, we are trying to close all the old contracts. We have been successful and as Mr Kamleshbhai by said that in the arbitration, we have Rs.63+ crores worth of value in the contracts which then the customer has again gone to the courts to buy time further and that will continue for a while till we get this amount.

Subham: Thank you for elaborate answer. And lastly, I wanted to know the 30 crores inflow in the MHE division, this is all related to products which is now all profitable inflow of contracts.

Prayasvin Patel: Yes. So, as I told you the products that we sell when there is profitability as well as there is an after sales division that we have which is catering to spares business and services that the customer requires, and which is also profitable.

Suham: Thank you, sir. I'll come back in the queue.

Binay Sarda: Sure. Thank you. We have the next question from Zaki Nasser. Please go ahead.

Zaki Nasser: Good morning Prayasvinbhai and congrats for stabilizing the company so well. Sir historically Elecon has been getting a turnover of 1200-1500 crores over the past decade. Now we have restructured our material handling division and given new trust to the gear division. Sir going forward next 3 years where do you expects the top line to stabilize at this is first part of the question. Second, couple of concall back we had mentioned that we are looking at alternate uses for our material handling facilities. What are your thoughts on that? Thank you.

Prayasvin Patel: I'm glad you asked these questions because these are very important questions that you have narrated. Basically, the way things are panning out there is going to be an increase in turnover because first of all we are sitting on a capacity utilization which is around 55-60% which was much lower earlier in the gear division, so there is a scope to further increase the turnover, it all depends on the order inflow. Looking at the present Indian scenario, the inflow of orders has started increasing and we presume that will bring in a further increase in turnover in the years to come that is number one. Number two is this will also reflect in a similar way with material handling, though as we said that we are not interested in taking contracts and projects right now but we would be still selling our products. Our after sales business which is spare business continues to remain. So all in all, we see a very rosy picture. Apart from this in the gear business, there is also a growth in the export business and we are still trying to give further thrust in those areas, reaching out into countries where we have not been as yet so that the growth would be further there. So as I told you right now the scenario looks extremely rosy in all directions.

Zaki Nasser: So, can we can we reasonably assume that may be next two years down the line we will stabilize at 1200 crores plus in terms of top line

Prayasvin Patel: Looks like it, yes.

Zaki Nasser: Fantastic and about the alternate use of that material handling facility which you had mentioned. So, is something happening on that front or will it take some more time.

Prayasvin Patel: We are actively pursuing because we have machinery which is catering to very large components and very large kind of fabrication. It is not easy to look for such kind of things they go into only specific certain types of industries and therefore we are pursuing it but we are also very judicious because we want to go into areas only when there are healthy margins because we are not interested in going into areas where there are low margins and very high competition. So we want to do work which is high precision and where the margins are healthy. So we're just taking a bit of time but just to say we want to only go into areas which would make money for the company.

Zaki Nasser: Thanks a lot and best wishes for the future.

Binay Sarda: Thank you. We have the next question from Sunil Kothari. Please go ahead.

Sunil Kothari: Thank you very much Prayasvinbhai. Sir, really it's very positive to listen about the way we are reducing our interest costs, debt reduction and making us debt free after long and it will help us for a very long time to have no debt on books because it has troubled us a lot during last may be 5-10 years, really commendable sir. So my question is on the opportunity which we are trying to capture internationally, if little bit detail if you can talk something. What type of opportunities opening up over next year, any size, any numbers any specific if you would like to talk?

Prayasvin Patel: First of all, let me tell you that the operations which have been happening and today we have our marketing arm in Singapore on one side, another marketing arm in Dubai. Out of these two arms, the Singapore one caters to the far eastern area, the Dubai looks at the Middle East and Africa area. Then we have Europe which looks after Germany, Holland, Netherland, France and all these areas and then we have the UK. On the other hand, we have United States which looks after United States, Canada and South America at the bottom. So this is the general structure. What I would say is the first intention was that we make them profitable and we make them profitable on a consistent basis and not by a microscopic amount which we have been able to do over a period of time. The challenges in America were a bit different, where we used to make losses, because we had set up an infrastructure in such a way that almost every state was being handled by individuals which we had to cut down and we had to re-plan the entire strategy which we have been able to do very successfully. And now we have become profitable and going forward it is going to generate very good healthy margins for us. The demand for products also in America have been offered different kind which suits us extremely well because those products demand in India were reducing, now with the international demand increasing those products have become reasonably good for us to manufacture because it is utilizing the capacities in a very healthy way. They are especially worm gearboxes of very large sizes. So all in all, the teams have been doing very well. On the other hand, America has now started getting orders from South America including Colombia, Chile and various other small countries in South America.

Prayasvin Patel: We have deployed agents out there who are also doing a good job. America and especially Canada has also worked out quite well for us. We are getting reasonably good orders from that area also. So all in all, it's a healthy scenario. As the period of time goes by we intend to deploy more of our dealers or agents in various territories because these countries quite often are very large like Canada and the United States. So adding more dealers and agents would help us and overall, the product acceptability has been very good and our customers who we have serviced up till now have been very happy with the product as well as the service. So we feel very confident that going forward we should be able to grow our business to considerable aspect.

Sunil Kothari: My next question is to Kamleshbhai, you people are doing really great job of debt restructuring, interest payment substantial reduction. So, my question is related to this MHE non cash loss which we have shown. Any one-time write-off or revenue recognition or something has been taken and if you can explain in this call or onwards any future communication to investor. If we can specifically mention about the past losses, legacy business related losses and current situation so, it will help us to understand what currently we are doing and what is hurting us. And related to that we have mentioned in our key initiatives about the MHE that we are expecting to come in with two major projects by one is in Q4 and another in Q1 next year. So, any ballpark numbers if you can provide possibilities of losses, that will help investor to understand that there is a possibility of some write off coming on this and if it is clearly mentioned during result presentation that will enhance our confidence and trust also. I would like to know any one time this type of things happen in MHE during Q3 and possibility during Q4 and Q1.

Kamlesh Shah: Presently whatever is to be done, we already did. But if you talk about the future, presently we are all on the closure of all our legacy project and we are about to close you know, one by one, all the projects. So, what we are just requiring is to get our retention money released from the customers and whenever some price difference it is there. So, these are nothing but you know, which is in the negotiation with the customers and presently we can't spell out what it will be there. However, considering our confidence and at the customer level particular PSU level the machines are working, we are confident that we will realise our money. Though at the last leg we may be required to just forego some of them considering the cost benefit analysis, particularly the cost for litigation further and how much time it will take. So my request to you, just some time may be by March or may be by June somewhere we will have some clarity about where we stand at least in terms of our relation of sticky receivables in MHE.

Prayasvin Patel: Sunilbhai, I will tell you how this thing works. See suppose tomorrow I want to close the NTPC order. First of all, they should be in the mood to close the order. I will explain to you, there are times when this is an extreme situation but we have to run away from the site because they are not interested in taking over the entire project and running it on their own. If you are running it for them, then why should they run? It is like they are producing a power using your equipment but they will find some excuse or the other so that they don't close the contract. So, you have to keep on running all the equipment, your manpower gets consumed, your maintenance continues as well as the insurance and everything else is also on your side, which means your insurance company, you keep on paying the premiums and they keep on getting all the benefits. Now for whatever reasons, ultimately if they decide to close the contract, they call you and you sit across the table and you discuss how to close the contract where you would tell them that these are the extra costs that you have to levy because of either escalations or due to any additional work that you have done, any additional services that you have provided, etc. That is the time when they talk about compensating it, so it is practically a negotiation that takes place of how the contract would be closed. And in turn, they quite often arm twist you and try to close a contract and it is very difficult to asserting what ultimately would be the result whether there would be additional amounts which have to be booked in by us or not, or we will tend to gain ultimate. Our intention always is Sunilbhai that looking at the pluses and minuses, we tried to come out with some certain plus amount rather than negative and their intention is always to bring it to a negative so that they don't have to pay you anything. So, this is the scenario that continues and therefore it will be difficult to give you an answer as of now, but as far as what we see is what we represent to you. Over a period of time when the clarity comes in that is when we try to put it in.

Kamlesh Shah: Sure, Prayasvinbhai we really appreciate this clarification. Just one request, if you can clarify after the results wherever we provide this presentation that this is related to something past numbers, if we can explain that will be really helpful to investor community, that's all. Thanks a lot and wish you good luck.

Binay Sarda: Thank you. The next question is from Anurag Patil from Roha Asset Manager. Please go ahead.

Anurag Patil: Thank you for the opportunity. Sir, as per your last annual report, there are around 160 crores plus contingent liabilities and some 340 crores plus corporate guarantees. So, if you can please elaborate on what is the current status and what is the possibility that these things can impact us in the future?

Kamlesh Shah: So, as far the corporate guarantees are concerned we have already paid off and set all the loans at overseas, the corporate guarantee is now in no more in existence. So, corporate guarantee is released. So, there is no corporate guarantee as on today which are outstanding. In regard to the litigation applicable tax and now it is very minimal amount which is continuing also.

Anurag Patil: So, how much would it be the current amount contingent, any ballpark you can say

Narasimhan: Except for this corporate guarantee towards borrowings in UK which has been closed, balance all relates to tax related litigations, and not significant movement has happened due to courts not functioning. But in the upcoming months, we expect that hearings will be conducted. So, as of now no other major change.

Anurag Patil: Okay. What is the consolidated order book, including the overseas subsidiaries?

Kamlesh Shah: It is 501 crores, including standalone.

Anurag Patil: Okay Sir. Thank you very much.

Binay Sarda: Thank you. We have the next question from Niraj Mansingka from White Pine, please go ahead.

Niraj Mansingka: Thank you for the opportunity. A few things can you give colour on the business environment on the gear business. You had said in the past about huge growth potential in the export side and you see that target going to 45% of the revenue share. And also wanted to know share on how much is the competition and the pricing scenario in gear business.

Prayasvin Patel: See, as I told you, we intend that it could be healthy for us to rely on the Indian market to the extent of 60% and 40% should be from the export area. There's a continuous striving that we keep on doing to reach towards 40%. However, now we are seeing that there is an upsurge of orders from the domestic market, and therefore again the percentage to maintain where we are today still becomes more and more difficult. So, this is a normal situation which we tried to come across. The margins in India have improved considerably after COVID because of the fact that we have been very particular to see to it that we maintain a healthy margin level in the domestic market also. Normally, the export market gives us a healthier margin than what we get domestically which is the positive part because there are a lot of companies in India who export at a lower price than what they sell in the domestic market, which is not the case with us.

Niraj Mansika: If you're running at a utilization of 55%, and you're having an upsurge of orders in domestic, how soon can we see this utilization increasing because exports are profitable. So what is stopping you from increasing your utilization in the gear business?

Prayasvin Patel: See it is the inflow of orders. Because let's understand one thing, that when we go into the international market and if we go into countries where we have not been there before, the acceptability of Elecon products becomes difficult. The reason is we are from India and not from the Western world that itself requires a considerable amount of convincing with the client. The second thing is that since they have not experienced our products in the past it is difficult. However, we have seen that once company starts utilizing our products and finds out that the products that we supply to them are robust and reliable they then tend to give us repeated orders.

Niraj Mansingka: Got it. Sir, last question, again coming back to the same thing you said about there's a lot of upsurge in the domestic orders, can you give some more colour to understand how sustainable and how long term it is and which sectors?

Prayasvin Patel: I would say overall, the area of infrastructure building naturally as you know, is in a very healthy situation and it will keep on improving further because if you have seen even in the budget, the finance minister has been emphasizing on infrastructure building and additional amounts being given to that sector. So, that is an area and the industries which are related to that are also going through a big upsurge. Pharma is doing extremely well. Similarly, we saw also a healthy inflow coming in from the cement industry. So, these are a few industries which are doing, steel also is again showing a reasonably healthy trend.

Niraj Mansika: Okay, thank you.

Binay Sarda: Thank you. We have some question on the chat board. Prashant asks what kind of turnover and profitability we can expect from material handling division in next one year. And is it possible to show some write off, one-time loss in the MHE division in the results.

Prayasvin Patel: As we said Prashant that it is very difficult to have a onetime loss in material handling because as we keep on closing contracts, we will know more as to where we stand and whether there is any additional losses to be booked. As of now it looks like we don't have losses to book and we have money to recover from the clients where we are closing the contracts, but only time will tell that is number one. Number two is we are expecting that our turnover will go up in the material handling business because of the fact that recently we have seen good requirement of product inquiries which have come in and we believe that the way the economy is progressing, that there would be further demand that would come. I would not be surprised if we see at least a 20% growth coming in for at least one or two years.

Binay Sarda: Thank you. There's one more question - what is the current debt as on 31st December 21.

Narasimhan Raghunathan: The fund base debt is around 170 crores.

Kamlesh Shah: The current debt position is 170 crores as standalone and overseas we don't have any debt as on today.

Prayasvin Patel: I can add to this that we are expected to get to zero level by FY23 end.

Binay Sarda: Thank you. We have the next question from Saket Kapoor. Please go ahead.

Saket Kapoor: Sir, as you have articulated in your speech when you explain us how NTPC and other players while executing orders, you are facing some headwinds. So, out of it total business proportion how much is from the government sector and what is the balance from the private sector if you could give the split of the business done and also on the order book front.

Prayasvin Patel: The contracts which we are going through closure right now, practically I would say more or less everything is belonging to the government. So, it could be the central government or state governments. Product orders which are now coming in are more from the private sector than from the government side, which is what is happening in the last one or two years. If you want values then we will have to dig in and probably send you an email and give you all this information.

Saket Kapoor: Sir as you were mentioning about cement industry, steel industry being at the buoyancy there and they being our major client. If you could give a ballpark number in percentage terms which industries will be our major clients or from whom we will receive order inflow by spectrum.

Prayasvin Patel: If you look at the pie chart of the gear business, it is broken up into small parts everywhere. Power sector used to be one of the largest once upon a time, which used to amount for almost 20+%. So you can imagine if that is the largest, the others work out to be very small slices of the pie chart. And therefore, it is very difficult to tell you which one is going to increase beyond or go above the other. As of now, there is a buoyancy in the areas that I have mentioned earlier. How much would that be, it will depend specifically upon the inquiries that are being received.

Saket Kapoor: Right Sir and particularly coming to the NTPC part, in the presentation also there has been some mention about NTPC order backlog and getting executed and the completion happening by the first quarter of FY23. So, what is the size of business that we have done for NTPC for these nine months or now how much backlog is pending? Is there any litigation issue in this or it is all clean business.

Prayasvin Patel: There is no question of litigation. It is a question of almost everything more or less has been supplied from us, whatever that means to be supplied from head office for the equipment's have already been supplied - erection and commissioning is what is going on. Minor civil work which is pending has to be completed, certain products have to be tweaked in for the completion and that is what is going on right now. And if the COVID had not attacked us, we would have completed this project probably three months ago or may be even six months because there were two waves of COVID which hit us very badly and which is the reason why these delays have occurred. But we are hopeful that we will be able to finish them and get out of it fast. As far as we are concerned this final settlement would take place soon, and our dues would be received

Saket Kapoor: Sir can you quantify, in your presentation you have mentioned that project completion status expecting to complete major contract of NTPC by Q4 of FY22 and another major project is expected to close by Q1 FY23. What is the quantum of this revenue and one more point when you were telling about this delay in process where they used to use our equipment, so at that time what was the process of revenue booking? So, when can we book the exact revenue even when they're using our equipment for trial runs or when there is a completion? Just wanted to have that understanding of the nature of how the business revenues are books.

Narasimhan Raghunathan: So, as CMD has clarified in NTPC, we are in the closure of the projects and there is no further revenues to be recognized on that account. And in terms of the number of projects from NTPC, we have got atleast two projects out of which both are expected to close in this quarter. One definitely has been very close, only the final sign off is to be done and other one is also expected to close. So, these are the two major one from NTPC. So in terms of fresh revenue, we don't expect anything to be booked now. May be the last milestone few activities could be there, so that's not a significant.

Saket Kapoor: For Q4, we won't be booking any revenue on this project. So when you have mentioned here it is the only the completion status, the revenue booking would be done or the revenue booking has been done earlier.

Narasimhan Raghunathan: The revenue booking has been done already, there is no fresh revenue booking.

Saket Kapoor: Both for Q4 and Q1 execution?

Narasimhan Raghunathan: Yeah.

Saket Kapoor: Didn't understand that the nature of how are we booking our revenue earlier before the completion of project.

Narasimhan Raghunathan: This is always on the percentage of completion method. We had to recognize revenue and in fact, as what you could understand over the period of past 4-5 years based on the completion we have completed virtually 98-99% sort of thing. Only the last milestone activities which may not be that significant for the activity which we are currently doing. All these years we are only waiting for the customers to proceed with the testing and final completion activities, sign off and another thing. So, based on the activity we have completed we have already recognised revenue.

Saket Kapoor: So what are the receivables for this order, how much are the receivables pending from them? Since the execution is not complete there must be retention money from NTPC. So how much of the fund would be released for post Q4 and Q1?

Narasimhan Raghunathan: May be we can provide you, we don't have the immediate numbers available on what's the receivables and these things should be coming from the financials. We can specifically clarify you over email.

Binay Sarda: We have the next question from Ankit Babel. Please go ahead.

Ankit Babel: Good morning, sir and Ankit Babel here from Subhkam Ventures. Couple of questions when the macro part is so strong, both domestically and internationally, so what kinds of growth you're looking at in your order inflows in the next year in the gear business? Both standalone and console level if you can tell.

Prayasvin Patel: We would see atleast a growth of the way it looks like as of now the scenario, we should be able to atleast log in a growth of 20%.

Ankit Babel: Okay. In the last call also, I had asked you this question and repeating that, in the current year, good part of your execution was from the marine side, the gear box from the marine which would be present in the next year as you are expecting it to finish it off in next couple of quarters. So, on a reported basis, what kind of growth you are envisaging in your consolidated gear business revenue, which includes the overseas parts also assuming that there won't be any orders on the marine side.

Prayasvin Patel: Partially the execution will continue next year. There is a residual part which would remain, which will go on to the next year, as we expect as of now and then there could be another requirement which has come in recently for equipments and spares which would also bring in additional revenues. So all in all, we are expected as I told you to grow both consolidated Navy business as well as the rest of the gear business to grow at approximately 20%.

Ankit Babel: Actually here there is a slight confusion because in the last quarter you mentioned that you will show a flat growth in gear business in the next year and now you are envisaging 20% growth. So can you quantify the number to remove the confusion? What kind of revenue you are targeting this year in the consol gear business and on that base what you're targeting growth? A ballpark number will be fine. So, last year for your reference, I can tell that it was 905 crores consolidated transmission equipment revenue in FY21. So, apple to apple what kind of revenue you are looking at in this segment at the console level in 22 and 23 as it will remove all confusion.

Prayasvin Patel: So I told you compared to what we do this year, the growth is expected to be 20%, however, it is very difficult to ascertain very clearly. As I told you in the last meeting, or the last investors meet we had said that we are expected to do more or less the same is the fact that the revenues for the Navy business was not expected to remain the same or was expected to reduce. But now we see a hope because there are present inquiries which according to me if it materializes fast, there is a possibility that we will be able to execute that entire by end of next year.

Ankit Babel: Okay, Sir my second question is, you did mention that in the current quarter there was some non-cash one of write offs for provision in MHE division. So can you quantify that amounts what was it in Q3?

Kamlesh Shah: So, on Q3 level on net basis our right off is nearly 3.25 crores.

Ankit Babel: Okay, so you did a revenue of 20 crores and a loss of around 7.5 crores and in this 7.5 around 3.5 crores was this non-cash item. So, still there was a loss of 3 crores on the revenue 20 crores in the product.

Kamlesh Shah: This is because our revenue this time was only 20 crores in MHE division. So, because of that on sales turnover base also it is because of fix overhead.

Ankit Babel: Okay, so again, a question containing from the previous conference calls that Mr. CMD had indicated that the MHE division is expected to do a turnover of around 152-180-200 crores or anywhere between these two ranges. So assuming a 150 crores revenue, what would be the core profitability from the product business excluding any one-off which might come.

Kamlesh Shah: So if you do a turnover of 150 crores both - product as well as spare business, we can expect the profitability to the tune of 10-15 crores, depend how the product mix works out.

Ankit Babel: Okay. I will come back in the queue, thank you so much.

Binay Sarda: Thank you. We have a question from Niraj Mansika. Please go ahead

Niraj Mansika: Sir in the past, if you see the gear business, you had reported EBIT margins in excess of 25%. But in the last three quarters it was lower. So, can you give us colour is it because of the pass on of the prices which was on the steel prices? And is it possible the margins to be go higher because of the stability in steel prices?

Prayasvin Patel: See, I would not like to commit that the margins would go higher or not. But all I can tell you is that if the turnover increases since fixed costs gets distributed over large number of orders, there is a possibility that the margins may further increase.

Niraj Mansika: Any hypothetical numbers you can share on that. Say utilisation goes to 70%.

Prayasvin Patel: It will also depend on the product mix. So it's very difficult to generalize. And as I told you, the only thing I can say is that the more you produce, your fixed costs get distributed over a higher turnover and therefore they tend to increase.

Niraj Mansika: Okay, thank you.

Binay Sarda: Thank you. We have the next question from Pratik Agarwal from ITI MF. Please go ahead.

Pratik Agarwal: Thanks for taking my question. Just one question data point regarding. The breakup of your gear business and MHE business what would be the product to project ratio in both of them. The context which I'm coming from is basically I'm trying to understand that you're trying to reduce your project profile and be more in products. So is it the issues we're discussing regarding NTPC, or may be marine order getting over? So those are project orders that are finishing off or then only mostly product will remain. So, from that context, I'm trying to understand what is the profile right now and in future would most of it be product?

Prayasvin Patel: In gear division, there is nothing like project and products, because all of them are products. The way we do the marine business it is deemed to be a project because of the entire execution of various ship sets that we do. But however ultimately, they are being invoiced like products. So you can say that the gear division has 100% products, as long as material handling is concerned practically all project business has more or less come to end. Now I will explain why I would say come to an end. All the products or in the project work the products which are being used are all have been dispatched to site and there is completion of the work which is happening at site. A lot of these contracts have been closed, some of them are on the verge of getting close and some have not even started as yet though the order has been received two to three years ago. Not a single line has been drawn which would tend to get cancelled over a period of time, hopefully. But otherwise, everything else is either after sales which is spares or that is product business, which is pending in material handling.

Pratik Agarwal: So, this 66 crores of MHE order book that is mostly project which will be getting over in some short span of time.

Prayasvin Patel: No, it would be basically product orders or after sales i.e. spare would be a combination of that.

Pratik Agarwal: Okay. And marine order that we're discussing will fall into the product in the gear segment as product order.

Prayasvin Patel: Yes.

Pratik Agarwal: Okay. That was my only question, sir. Thanks a lot for answering it.

Binay Sarda: Thank you. We are the last question from Saket Kapoor requested to limit a question to one because we have already crossed our time limit.

Saket Kapoor: Sir, question is pertaining to the MHE division only. Just wanted to understand what are the current constraint in this division that the revenue trajectory is lower and therefore the profitability is also lower? So, going forward, how is this division going to contribute to the total top line and how is the profitability going to shape up going forward. And if you could give some more colour, inventory build-ups what we have seen for this quarter, if you can explain what is the nature of this inventory and going forward how is this going to affect the P&L?

Prayasvin Patel: As far as material handling is concerned, as you know, we have stopped doing project orders. So the turnover has dropped. However, we are doing products where we are being very choosy because we want to take orders which would give us profits and profits that of reasonable type and size. Why I said type is because it will all depend on the payment terms also. The rest of our spare business which is also reasonably healthy and therefore, which has got healthy margins. So, all in all, when we say 150 or 160 crores of turnover it is all that is going to bring in positive margins in the organization. Our intention has always been that you improve the profitability and not only improve the top line. So, the top line has to go up only provided it brings in positivity at the bottom which means brings in profits. So this is what we are planning to do. However, as I told you that we have spare capacities available in manufacturing and therefore we are looking at alternatives where we could utilize our facilities and increase our turnover and improve our margins further. So this is a game plan.

Saket Kapoor: Do we have this peer comparison factor, international competition in the southern India are they your competitors in the same vicinity, in the same profile?

Prayasvin Patel: No, they aren't.

Saket Kapoor: **C**an you give Peer comparison for the material handling segments so that we can have an outlook on the industry also. Who are our domestic players we are competing to your size?

Prayasvin Patel: In material handling we are competing with the likes of L&T, Thyssenkrupp India Limited and also the multinational in South India.

Saket Kapoor: Thank you for all the elaborate answers. So we hope to end this year positively and a growth of 20% can be envisage for the year to come and the worse should be behind us for the material handling division, this should be the summary we can take home.

Prayasvin Patel: Yes, definitely. See, as I told you, we want to make sure that we close the contracts and get out of the situations where all the expenses get booked and everything gets clean and neat. And we keep on making margins in the products that we sell and the spare business that we do and going forward we bring in new product lines that would bring in further improvements in margins.

Binay Sarda: We will take one last question from Kartik from Suyash Advisors. Please go ahead.

Kartik: Good afternoon for opportunity. Couple of questions, one I am being slightly greedy when I ask you this question, given the traction that you are seeing internationally, is it conceivable at all that in say three years time you get to 1000 crores of international revenues, being specific when I say international revenues.

Prayasvin Patel: Next three years would be difficult.

Kartik: When I say FY25.

Prayasvin Patel: It would be difficult unless there is some inorganic acquisitions that take place.

Kartik: Right. 700 would be a ballpark number possible. I know I am pushing this but just indulge me.

Prayasvin Patel: See as I told you, I would say 500-700 crores round about that is possible.

Kartik: The other question, sir, is in the domestic market. You spoke about being particular about profitability and your payment terms obviously. So, are you seeing customers being pushy or are they willing to wait for you to come to a more agreeable position, how exactly do you perceive the situation here? Is there a risk that you become a personal non grata at a certain level because you are not taking orders below your terms? How exactly should one think about that?

Prayasvin Patel: In gear we have seen that the customers are willing to pay the price that normally we request. And the reason is that we have an edge and superiority over the competition due to various reasons. As long as material handling is concerned, if it is a government tenders then the lowest is the one who gets. So, that is a very difficult situation and which is the reason why we have tried to get out of projects apart from the fact that as we mentioned earlier, that the customer in the end just doesn't want to pay for it.

Kartik: And final question, sir, in terms of raw material sourcing. I know that a lot of people have been facing challenges both in terms of pricing as well as availability. How exactly are you able to handle that situation? Has that been a constraint for you?

Prayasvin Patel: No, it hasn't been a constraint except the fact that the prices have gone up recently. And there is a slight amount of lag before you are able to realize new prices from the customers.

Kartik: Thank you very much.

Binay Sarda: Thank you. That was a last question for the call. I would like to now hand over the call to Mr. Patel for his closing remarks. Over to you Sir.

Prayasvin Patel: Well, first of all, I would like to thank all of you for taking so much of interest in Elecon. What I can assure you is the worst times have got over we tend to go from a profit level which keeps on rising because if you look at the last three quarters results last year and compared it with this year, we have gone up by almost four folds which is very healthy sign and the way things are panning out and the way we see the things in the future we will be able to sustain these kinds of profitability and also on a situation where we will be able to improve them. So the scenario looks very healthy and after a long time, we have been able to get out of the material handling situation where the losses kept on accruing and now we are more or less at the end of the term. So all in all things look very rosy and healthy and if the demand keeps on increasing, I believe that sky's the limit. So thank you all. And hope to see you in the next investors meet.