ELECON
GEARING THE FUTURE

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27th July, 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 22nd July, 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 letter dated 19th July, 2022 regarding schedule of Investor Call, please find attached herewith the transcript of the Investor call held on 22nd July, 2022 for Q1 for the Financial Year 2022-23. 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

Elecon Engineering Company Limited V.V. NAGAR

Bharti Isarani
Company Secretary & Compliance Officer

Encl.: As above

Gearing industries. Gearing economies.

ELECON ENGINEERING COMPANY LIMITED, Post Box # 6, Vallabh Vidyanagar - 388 120, Gujarat, India. **Tel.:** +91 - 2692 - 238701, 238702. **Fax:** +91 - 2692 - 227484.
CIN L29100GJ1960PLC001082 | infogear@elecon.com | www.elecon.com

“Elecon Engineering Company Limited Q1 FY-23 Earnings Conference Call”

July 22, 2022

MANAGEMENT: MR. PRAYASVIN PATEL – CMD.
MR. KAMLESH SHAH – GROUP CFO.
MR. NARASIMHAN RAGHUNATHAN – CFO.

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY23 Post Earnings Conference Call of Elecon Engineering Company Limited hosted by PhillipCapital India Private Limited. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Apurva Shah from PhillipCapital. Thank you and over to you, Mr. Apurva.

Apurva Shah: Thank you, Peter. Good afternoon to all the participants on the call. And thanks for joining for this Q1 FY23 Earning Conference Call of Elecon Engineering Company Limited. 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 company for the quarter gone past and then we'll open the floor for Q&A session. With that said, I would now hand over the call to Mr. Prayasvin Patel. Over to you sir.

Prayasvin Patel: Thank you. Good evening, everyone. Ladies and gentlemen, a very warm welcome to our Q1 FY2023 conference call. We are pleased to report strong financial performance during the quarter and have delivered consistent improvement in our results over the last many quarters.

Discussing the results at a standalone level. The total operating income increased by 16.4% year-on-year to Rs.257.2 crores compared to Rs.221.0 crores in the corresponding quarter of the previous year. The EBITDA on absolute basis increased by 9.8% year-on-year to Rs.55 crores as compared to Rs.50 crores during the corresponding period of the previous year. This translates to EBITDA margin of 21.4% in Q1 FY23 compared to 22.6% in Q1 FY22. We closed this quarter with a net profit of 32.9 crores as compared to 23.1 crores during the corresponding period of the previous year reflecting an increase of 42.4%.

Let me highlight few points related to the results. The gear business witnessed strong demand from the end user industries like cement, steel, sugar, power, et cetera. Gear revenue includes Rs.9.95 crores from marine project in Q1 FY23 compared to 61.19 crore in Q1 FY22.

On the back of our strategic initiatives, the MHE business has seen remarkable turnaround and turned profitable which is expected to continue for the full year FY23 and ahead. Moreover, there has been substantial reduction in receivables led by our relentless focus, two out of three legacy projects are cleared and settled whereas the balance is expected to be settled by Q2.

Coming to the consolidated financials of the Q1 FY23. The operating revenues increased by 11.4% year-on-year to 327.7 crores as compared to 294.2 crores in Q1FY22. EBITDA increased by 10.2% year-on-year to 64.9 crores versus 58.9 crores in Q1 FY22. EBITDA margin stood at 19.8% in Q1 FY23 as against 20% in Q1 FY22. The consolidated profit after taxes stood at 42.3 crores on Q1 FY23 as compared to 27.3 crores in the corresponding period of the previous year, an increase of 54.9%. Overseas revenue from Q1 FY23 is flat as compared to Q1FY22. The same is impacted due to global logistic challenges. However, we are confident to achieve our annual overseas revenue target as we expect things to normalize. Orders on hand in overseas business is Rs.114 crores. Demand environment continues to be robust, resulting in significant ramp up in the order booking with orders worth 282 crores booked in gear business and orders worth 45 crores in material handling business during the quarter. In the gear business the orders on hand is 400 crores and in MHE business, the orders on hand is Rs. 102 Crores. The Company is monitoring the impact of inflation and slowdown in the global economy and is taking necessary measures to mitigate the impact of the same.

I'm delighted to announce that we have become net debt free. Along with this our focus on debottlenecking and ensuring better utilization of available capacity, along with working capital optimization and cost control has led to improvement in margins and profitability and return ratios. We continue to focus on improving share of exports, which will help to further boost the overall performance. We are confident of improved performance in the coming quarters on the back of strong order book and order inquiry both in domestic and international business. We continue to monitor emerging trends in inflation and economic slowdown in Western countries and remain well prepared to take necessary steps to minimize the impact arising out of these headwinds. Thank you all. We will be happy to address your specific queries about the business going forward. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from line of Shubham Agarwal with Aequitas India. Please go ahead.

Shubham Agarwal: Sir my first question is related to the subsidiary business. So, this quarter we saw a decline, muted execution and profitability. So, if you can elaborate on what were the key reasons for that, and how do we see this subsidiary business for the rest of the year?

Management: As you know that there are two things which are affecting the subsidiary businesses, one is the war which is going on between Ukraine and Russia which is having an impact on the energy cost and the other one is high inflation. In spite of this, there are very healthy inquiries available with our foreign subsidiaries and we are confident that by the end of the year we should be able to do as projected or even better for the exports.

Shubham Agarwal: Okay. And what would be our total projection for the year?

Management: Our projection overall was 140 crores.

Management: 1000 crores on standalone basis and 1500+ crore on a consolidated.

Management: I was talking about the total exports, fine anyway go ahead.

Shubham Agarwal: So, that the number clearly can you once again tell the total export number?

Management: Total export what we are expecting from India should be 140+ crore.

Shubham Agarwal: Okay, got it. Sir, secondly on the standalone business, so this quarter we observed that both employee cost and other expenses were on the higher side. So, sir if you can elaborate as to what were the key reason because employee costs almost jumped by 50% Y-o-Y and around 35% Q-o-Q. So, yes, if you can elaborate on this?

Management: We have increased our strength in business development also on the logistics that is SCM and in the design and engineering, because we believe that for the growth of the organization, these three areas would have to be further enhanced to grow the business especially the exports.

Shubham Agarwal: Okay, got it. And lastly on the order book sir, you said you have a very healthy pipeline of order which is expected. So, again, if you can help us understand where all or which industry you are observing and given the recent changes in the global headwind which we are seeing, are we seeing any order that is getting either postponed or getting rejected?

Management: We are not seeing postponement, but we are seeing that some of the companies in India are pausing for a while, and they are pausing for a while because they feel that the prices of steel especially have gone down and they are wanting to sit on the fence to see if they're further going down. So, that they can order a bit later and get cheaper prices. But all in all the demand, we are not seeing a reduction in demand, it is just that they want to delay the ordering process. However, as you have seen our orders on hand are sufficient for us. So, it is not impacting us probably it is helping us so that we are able to streamline our output in a better way.

Moderator: Thank you. Our next question comes from Kashyap Javeri from Emkay Investment Managers. Please go ahead.

Kashyap Javeri: I have just one question, in your notes to accounts there is something about a settlement of claim with vendors roughly about eight crores, So, what is that and second question, in your presentation, you haven't given consolidated order books. So, what is the total consolidated order book including the overseas business?

Management: The consolidated order book position including the overseas is 617 crores. In regards to that note, what is reflected in our Q1 finances it is not 826.95 crore that is some negotiation with the vendor who are controller supplier to us, they were negotiating about a price hike because of this Ukraine and Russia war, they got impacted. So, we have settled that amount with the respective vendors by giving some price rise to them so, that our continuity of supply will continue.

Kashyap Javeri: In this settlement with respect to the previous period supplies or is it with respect to the raw material for this particular quarter?

Management: That settlement is for the period from January 2022 to March 22.

Kashyap Javeri: So, for the previous quarter?

Management: Yes, previous quarter.

Kashyap Javeri: Okay. And you said consolidated order book is 617 crores?

Management: 617 crores.

Moderator: Thank you. Our next question comes from Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, just want to confirm on the sales number, you mentioned a number of 1500 crores in some of the releases. So, is 1500 crore the number for consolidated sales expectation for FY23 and if yes, then within that what will be the gears business number?

Management: The 1500 crore is on a consolidated level. So, of this nearly 200 crore would be from export and balance 1300 crore will be from gear business.

Pritesh Chheda: Okay. Just to confirm this is FY23 numbers, so the current going year number?

Management: Yes, correct.

Pritesh Chheda: Okay. Based on the cycle or based on the order inquiry that you are seeing, are you seeing a case where you would be in a strong growth scenario for 23 and 24 both and we can see a 20% type growth rate in gears for the next two years that is this year and next year?

Management: Basically, I would not be able to comment on it. The fact remains that right now there are headwinds from all directions however, as of now we are not seeing any deterioration in the inquiry levels at all which means the offers that we are giving are robust and the requirement is strong. However, as I told you, considering the fact that all the countries of the world are trying to increase the interest rates to curb inflation, we do not know how the situation would be globally. So, it would be difficult to comment, but we are pretty gung ho and strong that it should continue.

Ritesh Chheda: Okay. On the interest cost side sir from your release it's clear that we are debt free. Does this mean that the interest cost from next quarter onwards will be zero in the P&L or there will be some cost and if yes, if you could quantify the same?

Management: Yes, there will be some cost, that is net debt what we have this is net debt free. So, we will have some portion of my interest income as well as my interest expense also. We are expecting that will be in the range of 1.5 to 2 crore maximum.

Pritesh Chheda: Net basis?

Management: I'm talking about gross, in the net basis it maybe zero after Q2 onwards.

Pritesh Chheda: Okay. And lastly sir on the gears business margins. So, as we move higher in terms of the size of the business, is there a scope for improving the margins from the 20% that we have seen for some time, is there a scope to improve these margins?

Management: I would say yes. And the reason is very simple that the fixed cost gets distributed over a higher turnover. And therefore, it definitely would improve the margins. Normally the gear industry is very capital intensive, so the fixed costs are relatively high.

Pritesh Chheda: Okay. So, let's say in gears what is the contribution margin that we operate at usually?

Management: Contribution margin in the sense, about the EBITDA margins?

Pritesh Chheda: No. So, contribution margin is basically revenue minus all the variable expenditure.

Management: So, it ranges from 50% to 55% - my variable cost.

Pritesh Chheda: Variable right?

Management: Yes.

Pritesh Chheda: Which means that if you move your revenue from 1100 crores to 1600 crores which is 500 crore extra, this 500 crore extra has a probability to generate 200 crore of extra profitability?

Management: Yes.

Pritesh Chheda: Is that correct, sir?

Management: Yes, its correct if you're talking about on the variable cost.

Pritesh Chheda: Yes, based on whatever answer that you all gave. In that scenario sir what happens is, the EBITDA margin starts looking like 25%, 26% we are not way off the curve on this number right. It can make a 25% margin business also?

Management: Yes, it may generate or so.

Pritesh Chheda: It can generate right?

Management: It will definitely be dependent on the product mix, but considering the product mix that we have today. And that's what we have been adding in the past and yes, these figures sound true.

Pritesh Chheda: Yes, they are not something which is completely haywire they can be achieved is what I wanted to understand.

Management: Definitely.

Moderator: Thank you. Our next question comes from Pratik Kothari with Unique Portfolio Management. Please go ahead.

Pratik Kothari: My first question is on the gross margins, if we exclude this seven crore settlement that we had to do the prior quarter, gross margins have improved substantially compared to the previous quarter or the previous year. So, can you highlight a bit more, in this inflationary scenario how did we manage to get such a high gross margin?

Management: See, basically we had a very good control over the supply chain, and we were anticipating a price increase. So, our validity of the offers we had kept them to be very, very short. And there we had made offers since the prices had increased we went back to our customers and asked for an increase in prices.

Pratik Kothari: But in that case, our gross margins should have stayed similar, we have done much, much better?

Management: It is the question of how you negotiate things with your supplier as well as with your customers. So, I can proudly say that our boys have done a fantastic job.

Pratik Kothari: Absolutely, it's very impressive. Second question, what would be the export number for this quarter from a standalone view? In the meanwhile, we have been trying for a while and we did see some early success in terms of entering U.S. as a geography so, just some highlights on that if you can?

Management: We are expecting our Q2 export will be in the range of 25 to 30 crore from India.

Pratik Kothari: What about this quarter, the one which went by?

Management: It was nearly at least 22 crore for this quarter.

Pratik Kothari: 22 crore fair enough. Sir, your comments on our entry into U.S. and how are we approaching that?

Management: Sorry, can you repeat that please?

Pratik Kothari: My question was, for a while we have been trying to enter U.S. and we did see some early success in terms of exporting to U.S. as a geography which is a much larger market. So, how is the exact thing, how are we progressing there?

Management: We are doing well, there are various new opportunities that have come our way. We are seeing that we have been able to also break through with a couple of large customers who are large users of gearboxes and when we last talked with our U.S. marketing team, they were pretty confident that they will get some good orders from these big customers. Once we have that opening, it would open up larger opportunities for us in the future.

Pratik Kothari: Sir my last question, you did highlight that two of our three legacy projects we have completely closed and second one will be done now. So, we have whatever those retention receivables that we had all of that has released or it's only the execution which has been completed?

Management: Execution we already completed in the previous year that we already talked, now we were chasing for the money, substantial amount is already for one project is closed and settle all the amount. For the second project which we close and we realized the money, part amount is pending related to the price difference which is also expected in Q2 anytime.

Pratik Kothari: So, this 110 crores retention receivables that we had at the close of March, what would that number be currently?

Management: Presently it is Rs.83 crore as on 30th June 2022.

Moderator: Our next question is from line of Gunjan Kabra with Niveshaay. Please go ahead.

Gunjan Kabra: Sir, my first question is like a lot of data points including our order book too, is –suggesting CAPEX cycle revival and the last good cycle in manufacturing was in 2003 - 08. So, then even our revenue grew a lot significantly. So, what is your view this time in terms of maybe longevity or how are you seeing market this time. There might be a short term hiccup in between like what is happening right now, but what's your view on the overall market this time?

Management: See, as you rightly said that, the CAPEX cycle is now long overdue. And we have just seen the beginning of the CAPEX cycle. The unfortunate part is in between as I said earlier that the interest rates are being hiked up to control the inflation which according to me may not be a deterrent through the purchases and the CAPEX cycle that is expected to run through and therefore, I believe that people may actually make even higher investments because the cost of investment is going to become cheaper. So, I believe it is the way people will perceive the entire situation. Okay, I'm reasonably confident that this will continue.

Gunjan Kabra: Okay. Sir, also like what is the lifespan of gears like small and the big gears both right now, what would be the mix of demand source in terms of fresh requirement or the replacement demand, like do we cater to more on the fresh CAPEX or on the replacement demands also, like because majority of the CAPEX like huge CAPEX was done in the previous cycle so?

Management: Normally, the ratio is 80:20, 80 is fresh and 20 is replacements and then normally we see that the replacements are where the profit margins are even higher.

Gunjan Kabra: Okay. Sir what will be the lifespan of the gears for the small ones and for the big ones?

Management: The theoretical life of the gear is infinite, but in practical terms it can vary from two years to 20 years, depending upon the kind of application, the kinds of conditions, the kind of maintenance and so forth.

Gunjan Kabra: Okay. And sir what would be our mix in large gearbox and small gearbox, what would be our mix in our portfolio?

Management: I would say it might be almost close to 50:50.

Gunjan Kabra: Okay. And sir any margin difference in the two?

Management: Normally, the larger gears should have a higher profit margin, but it varies from contract to contract.

Moderator: Thank you. Our next question comes from Ankit Babel with Subhkam Ventures. Please go ahead.

Ankit Babel: Sir my first question is, what was the need to highlight this 6.95 crore vendor settlement figure, was it exceptional in nature or it's a regular part of the business?

Management: Because it is related to previous period, so that is why it is required to be highlighted.

Ankit Babel: Okay. So, adjusted to that actually your margins were higher for this particular quarter?

Management: Yes.

Ankit Babel: Okay. Sir my second question is, the difference between the standalone and console revenue for last year that is FY22 was around 328 crores so which is basically the revenue of your overseas subsidiaries. So, what kind of revenue you see in FY23 of these subsidiaries versus this 320 crores?

Management: About 400 crores.

Ankit Babel: 400 which was around 70 crores this particular quarter, which was flagged Y-o-Y?

Management: Yes.

Ankit Babel: Okay. So, what I was trying to understand was 1000 crore standalone gear business revenues what you're targeting another 200 crore from material handling and 400 crore from overseas subsidiary. So, a 1600 crore kind of consolidated turnover is what you're looking at for FY23 is my calculations correct?

Management: Yes, 1600 crore will be at a gross level because we have to do the elimination also, the goods which we are supplying from here as a sale which will get knockoff at the consolidated level.

Ankit Babel: But that would be what like 20, 50 crores or?

Management: It will be 100, 120, 150 depend upon how it works out.

Ankit Babel: Okay. And the EBITDA margins in this overseas business would be what?

Management: EBITDA margin we can expect nearly 14% to 15%.

Ankit Babel: Okay. And sir lastly that calculation if you can make me understand that the order inflow, the order book in the gear business was around 410 crores in last quarter, and when your inflows are higher than your execution, still the order book is down. So, if you can explain that calculation sir both in MHE and gear business?

Management: Sure. In gear business generally under the IndAS we have to do some reversal offsets because of the eco terms. So, that has an impact of 13 crore within gear. And further for marine we were doing a revenue recognition on the POC basis percentage of completion basis under the contract accounting. So, that has an impact of 62 crores the revenue recognized in the earlier period and invoicing has happened in this quarter. So, that is an impact of 62 crores. So, that is when a gap of 77 crore is there, you're net maybe talking about the 77 crore difference.

Ankit Babel: Yes. So, that 400 crore is the real order book now in the standalone gear business?

Management: Yes.

Ankit Babel: Or you feel that there could be further adjustments to this also?

Management: No, this mainly be all because of the POC revenue recognition and the contract accounting. Now as marine project already completed, there is nothing pending now. So, we don't find such kind of impact. However, reversal and sales particularly and the IndAS guidelines for the revenue recognition may have the impact, maybe a positive side or on the negative side in terms of the total revenue.

Ankit Babel: So, what kind of order inflows you're targeting in the standalone gear business for this year? You've already done 282 in the first quarter?

Management: Yes, so that same order inflow will continue for us.

Ankit Babel: Similar run rate of around 300 crores for the next three quarters?

Management: Yes.

Ankit Babel: Okay and last question is on the material handling now, since we are now having decent profits and turnover is also at the run rate of around 45 crores. So, this business what is the outlook for the next couple of years like suppose this year, I guess you're estimating 200 crores. So, next two years, what is the target here?

Management: See, over a period of time this will grow, we are expected to add also new products to this business. So, I would say you should expect at least a growth of 20% to 25% year-on-year.

Ankit Babel: And margins?

Management: Margin should be similar or going forward a bit better. I would say between 17 to 20.

Moderator: Thank you. Our next question is from line of Balasubramanian with Arihant Capital. Please go ahead.

Balasubramanian: Sir in the CAPEX front, installation of solar plants and windmills could you please throw some light on that, so what kind of energy consumption it will replace and when it will be executed?

Management: The installation of solar is already under process and we are expected that it may get closed by Q3 during monsoon and we cannot do the installation that's why. In regard to the benefit first that will help us to go towards the green energy that is the main benefit maybe in a monetary or non-monetary way we can consider the benefit. But, yes down the line we are expecting that will have result in a positive way in terms of the IRR. So, we are looking for positive IRR and payback period by nearly between 7 to 10 years depend upon how the solar radiation and generation of the electricity.

Balasubramanian: Okay, sir. Sir, my next question is export on steel products might postpone CAPEX plan for steel players for short term to medium term, Elecon Engineering has significant portion of order around 20% on consolidated basis from steel sector is the really short term to medium term at times for order from steel sector, could you please throw some light on that?

Management: Sorry, can you repeat it because I'm not able to hear you?

Balasubramanian: Sir, export duty on steel products might postpone CAPEX plan for steel players for short term to medium term. Elecon Engineering has a significant portion of orders book from steel sector, is there any short term to medium term headwind for orders from steel sectors, could you please throw some light on that?

Management: We are not seeing any change and the requirements that have been firmed up by the companies they are still continuing to process them and execute them. So, as of now, we are not seeing any impact to whatsoever of this.

Management: Second, while no discarding from exports on the steel sector because in export duty, we believe that it is of temporary nature and may get lifted, maybe in Q2 sometime.

Moderator: Thank you. Our next question is from the line of Sanket with Kedia Securities. Please go ahead.

Sanket B: Just wanted to understand like currently are we servicing any defense orders or are we seeing any more traction from the defense segment side and also will our margins for the export business versus the domestic business be same or for exports we will get higher margins?

Management: We have recently got an order of about 130 odd crores from the Marine business or the Indian Navy. And going forward, there are reasonably good inquiries on hand. This order would be executed in a period of two years, the one that we have on hand. Sorry, does that answer your question.

Sanket B: Yes, wanted to understand the margins between our export and the domestic business are they in the same category or for the export we enjoy higher margins?

Management: Exports normally are giving us higher margins as of now, but I would be saying this very proudly that the domestic margins are also catching up and going to a higher level over a period of time as of now.

Sanket B: Understood. And for the recent government schemes announced like PLI are we seeing any more traction on the ground or any more inquiries like how is the thing shaping up on the ground with the recent announcements which have been there?

Management: We've not seen the impact as of now.

Management: The scheme we studied so far as we are concerned it is not having so much benefit compared to the obligations which are carrying under this PLI scheme.

Sanket B: Understood. Even from the end user side are we seeing any more inquiries or is it still in the study phase only and no material impact on?

Management: Yes, if you see some manufacturing setup are coming up, because our gear products are being used across the industry from A to Z. So, we are catering to all the industries so that as and when it is coming up, when the traction is coming for utilizing PLI scheme by our client or prospective client that naturally it will help us.

Moderator: Thank you. Our next question is from Himanshu Yadav with Edelweiss Wealth Research. Please go ahead.

Himanshu Yadav: One is the confirmation you said the navy order is 150 crore. Is this a new order you are talking about?

Management: 130 crores, it's a new order it is 130 crores.

Himanshu Yadav: Okay understood. And sir just felt that you are hopeful of achieving the target sales this year which would imply our remaining quarters rate of say 22% to 24% kind of a growth. So, does the math works as per your order inquiries and all, what's bringing you that confidence?

Management: Yes definitely. We have had a good run rate up till now. And normally the first quarter in an engineering firm is always the weakest. And going forward the four quarter like the last five overs of the cricket match are the most interesting. So, we are on the positive ground and we will continue to grow in turnover and achieve our results we are reasonably confident.

Himanshu Yadav: Right. And sir last question on with you say this newer maybe order so margins would be similar to the last order which we had or is it also a high margin order for us and overall guidance on margin you expect in too much because of operating leverage in general. But apart from that, do you think and there are any risk to our margin guidance?

Management: So, we believe that the 130 crores would have similar margins to the one that we have just recently executed, the marine order that we have executed.

Moderator: Thank you. Our next question is from line of Sunil Kothari with Unique PMS. Please go ahead.

Sunil Kothari: Thanks for opportunity. Congratulations Prayasvinbhai for after a long we were able to come out of debt and now with MHE also turning positive, I hope you will be very relaxed.

Management: Absolutely. I'm able to sleep better now and thank you very much, because Sunilbhai your good wishes, and your continued support to us, has always helped us in keeping ourselves cheerful and confident that we will ultimately achieve this.

Sunil Kothari: Thank you sir for your good wishes. And sir my question is now because we are totally debt free, we will be generating really good cash flow also, your time you personally will be allocating to maybe this defense opportunity more or you feel exports and defense both can be very bigger opportunity because this marine gears may be coming of a different some longer frequency but some spares or some other products from maybe army or something, any thought process, maybe over two, three years have you seen any sizable opportunity and how prepared, or we are preparing ourselves?

Management: As I told you we have set up within our group, people who will be looking at various opportunities for defense. This is not only in Navy but also in the Army and Air Force. And the video that you sent me about Baba Kalyani was very inspiring. I have been showing this and I want to discuss this among our team, and see how we can also pursue certain areas when we feel that there are opportunities. So, that is one aspect, but in the business front, I believe exports has got huge potential. Because, we are talking about the entire globe especially South America there are very good possibilities apart from the United States, because South America is very similar to us. But the gear companies out there are not as matured and as capable as what we are and we believe that the opportunities are great out there. So, those also we want to pursue. However, in South America we will have to be a bit careful as long as payments are concerned, because those are the countries where we have not dealt with them in the past.

Moderator: Thank you. Our next question is from Barshan Javeri with Crown Capital. Please go ahead.

Barshan Javeri: So, most of my questions have already been answered. So, I'll just have one question. What kind of risk do you see that can probably impact us in achieving our stated guidance, is there some element that we should be on the lookout for or anything could you could just guide us on that, that would be great sir.

Management: Right now, the greatest risk that I perceive is the situation in the economy, because though India is being doing exceptionally well, considering the global environment as well as the domestic environment changing, even the neighboring countries have gone through a big turmoil. So, the entire world is going through changes, and these changes, if they impact the economy then things would be a bit different. But otherwise, we feel that we are on a very sound footing, especially because we are now at a zero debt level. So, the strength of the organization is quite strong. And we believe that if we even under the limited situations, if there is a recession, I believe exports should still be attractive to us, especially because our prices would be lower than the prices of the companies locally in that country, especially the western nations. And in the recession period, everyone is looking for a cheaper alternative. So, quite often, recession works in our favor rather than work against us, especially in exports. So, they are challenging times, being dynamic as an organization we feel we will be able to maneuver ourselves very strongly.

Moderator: Thank you. Our next question is from line of Sachin Kasera with Svan Investments. Please go ahead.

Sachin Kasera: Just two small query sir. One was you mentioned that, the clients are taking some sort of pause because of what is happening on the steel prices. So, if you could just tell us a little bit about how do we book the orders and how do we hedge our side of the steel, when we are taking any orders?

Management: Sorry, can you repeat it because I am not able to hear you properly.

Sachin Kasera: Sir, you mentioned that the clients are taking a pause, because they're expecting steel prices to go down, so I'm just trying to understand how do we hedge ourselves on the steel in the sense is it possible that we have already bought the steel at higher prices, and eventually when the client confirmed the order we get a lower realization and hence our margin could get impacted anything like that is possible or we do a back to back order of booking only?

Management: For the large and complicated gearboxes, we do not stock material. So, it is based on back to back orders, but for the small to medium size gearboxes, they are produced from stock to material. So, what we have done is, we have made some advance contracts which were continuing with the prices which were there when the prices were at a lower level. During the period that there was an increase, we have given the suppliers an increase which you have seen has impacted our values which were shown in the financials. But going forward, they will again get reset to 00 levels.

Sachin Kasera: So, just to clarify sir, is there a risk that are we getting from raw material inventory, which is at a higher price and against which there are no bookings and hence as and when the order gets finalized in the small and the medium sized our margins could have some compression in Q2?

Management: No, the answer is no. The reason is the stocking is barely for 15 to 30 days, or going almost till 45 days, nothing more than that. So, that can be corrected very easily and therefore, we don't see an impact. When the prices went up, also the impact as you see in the margins, were not there. Similarly, when the prices go down also the impact will not be there.

Sachin Kasera: Sure. And sir you said that there's a little bit of a pause in terms of finalization of orders, you see that if this continues a little more, it can have impact on the overall numbers you are guiding for FY23 or you are very confident that despite the pause that we have seen not too much of risk in FY23 numbers?

Management: We are not seeing any changes because this pause as I told you might be even helpful to us because we have sufficient number of orders on hand. So, if they pause it, they give us an opportunity to streamline our production based on the delivery times. So, we are not seeing any changes whatsoever and when our marketing people go to these large companies, they get a feedback from various departments and quite often the rest of them also spilled the beans that the project is going to continue, he's only waiting for the prices to go down. So, they are smart enough to wait for a while and then pick up the order. So, I don't see any significant impact at all whatsoever. It is only that they are consuming a bit of time.

Sachin Kasera: Sure, my second question is sir on the capital allocation. You mentioned that now we have become net debt free and our CAPEX for the next year is only 100 crores and we are expecting some more retention to get released plus there's going to be healthy cash generation. So, are we looking at some opportunities we really look in terms of some inorganic growth or are we looking at some new CAPEX on greenfield or are we looking at increasing dividend payout and do some sort of a buyback. Can you give us some sense for next two years what is the plan utilization for the surplus cash, now that will generate over and above this 100 crores of CAPEX?

Management: As of now, we are not exploring anything seriously. However, we want to make sure that we collect the surplus funds and park them in a way that they will give us reasonably good returns and then as and when the opportunity arises, we will maneuver these funds for those kinds of investments, if there are any further opportunities that come our way.

Moderator: Thank you. Our next question is from line of Renjith Sivaram with Mahindra Mutual Fund. Please go ahead.

Renjith Sivaram: Just a small clarification, in our press release we have given our target of revenue as 1500 for FY24 and answering to one of the previous question you told your target is 1500 crore for FY23. So, just wanted to clarify is it for 24 or 23 we are looking at this 1500 crore of revenue and is it standalone or console?

Management: The 1500 crore turnover which we are putting in our investor presentation for FY24 it is on a standalone basis. Whereas, now during this call when someone was asked this question when we replied that 1500+ crore is with consolidation figure.

Renjith Sivaram: Okay. So, 1500 crore of console revenue for FY23 and 1500 crore in a standalone basis for FY24. So, what will be the console FY24 target?

Management: It will be 2000+ crore.

Renjith Sivaram: Okay. So, that means the domestic gear business in FY22 was around 800 crore should reach to 1500 crore right?

Management: That will reach to 1200 crore at standalone level in FY23.

Renjith Sivaram: And it should reach 1500 crores in FY24? The 800 crore of domestic gear business moving to 1500 crore in the next two years, that is the kind of projection which we are working on. Just wanted to clarify.

Management: Yes.

Renjith Sivaram: Okay. So, in this with this commodity deflation a challenge because last year, the commodity inflation helped us because there was some 20%, 30% increase in the steel prices, now the steel prices have come down and it is likely to further come down. So, the realization per gearbox will come down. So, your absolute volume growth and your absolute EBITDA growth will come down, though your EBITDA margins will be intact. So, just want some clarity on that.

Management: You are right, but on the other hand, we would be boosting up the sales of exports, there our margins are healthier. So, we are expecting that, that would compensate.

Renjith Sivaram: Okay, I understood that, but like FY22 was a year when we got a lot of tailwind in terms of this commodity price movement of 25% to 30%. So, now that is deflating, so don't you think it will be a challenge for you if the commodity prices continue to come down to achieve this revenue target though your volume target can be achieved?

Management: Yes, but the volume we are expected that the volume would grow and apart from that, as I told you that, we are trying to further increase our exports and that would compensate margin wise as well as turnover wise.

Moderator: Thank you. Our next question is from line of Arun Subrahmanyam with Ampersand. Please go ahead.

Arun Subrahmanyam: I just wanted to clarify one thing that you mentioned that your demand is somewhat getting affected, because clients are trying to reconcile with steel price dynamics isn't that bit of a difficult thing to handle, because considering the gear is such an important thing that the customer is waiting for to place the order because of the steel price outlook?

Management: See, I will tell you one thing, the purchase people are always very smart, they wait for a month or two hoping that the prices if they go down further then they can delay by a certain period of time, but since if you're dealing with very large projects, then the delays cannot be afforded beyond that kind of period. So, what we see is that they try to delay it by a month or so or month or two, just to see whether the wind is blowing and whereby they can get better prices. However, when they feel that it is not changing then they go ahead and place the orders. So, it's kind of a move where they would try to find out whether that helps them or not. However, we see that ultimately they do come up and then place order. So, it's not affecting us in any way whatsoever.

Arun Subrahmanyam: Understood. But is there any improvement now that the prices are kind of stabilizing?

Management: Improvement in which way?

Arun Subrahmanyam: In order placement and decision making?

Management: Yes. See as I told you, if the delay it's like from order, from inquiry level to an order normally if it was taking 15 days, what we find is now it may be taking 21 days or 30 days that is the only difference that is happening.

Arun Subrahmanyam: Okay. And sir my question relating to your clarification that you gave seven crore of settlement. So, if I adjust for that so your margin would have been 200 basis point higher that is 22%, is that correct?

Management: Yes.

Arun Subrahmanyam: And that really is the sustainable margin that we should be looking forward to?

Management: Yes.

Arun Subrahmanyam: Understood. And the last question that I wanted to kind of clarify so, this exports that you do. Do you do that entirely to your subsidiary or you also export to them independently, that is directly?

Management: Both.

Arun Subrahmanyam: The bulk of it is to subsidiary or how should I look at it?

Management: See it's both, it depends on which country and which client. Quite often the invoicing is direct and in certain cases it is invoiced to our subsidiary and the subsidiary then invoices to the customer.

Arun Subrahmanyam: Understood. And you just said that because of this Ukraine conflict, your subsidiary performance was little affected that it could not really grow. And all your guidance which you have given including 400 crore for subsidiary is probably conservative to the extent that you are not really looking for any normalization. Otherwise, the number would have been better, is that how you're looking at it or?

Management: No, there are inquiries on hand but they're also because suddenly, because the interest rates have gone up and quite often the energy rates have gone up through the roof plus on top of it, the freight cost have increased drastically. So, the whole scenario has become very, it is full of turmoil and therefore quite often we see that customers are feeling anxious in ordering immediately. So, they are again quite often forcing. But we have very good inquiries on hand as of now. So, we believe that within the next three or four months we will get reasonably good orders coming through.

Arun Subrahmanyam: And sir you have increased your employee base, you said that you have increased your business development meaningfully. So, the benefit of this initiative which kind of led to this jump in employee cost, that is something which will come with a lag that is your revenue and number will be much better because of this expansion of sales force probably six, nine months down the line or they will, or we will do much better even before that?

Management: See, we have not only increased the manpower in the business development, but we have also increased them in the supply chain and in the engineering. The reason is we would like to execute orders faster. So, that we are able to support our export trust in a better way because today the logistics is consuming a much higher time period than before. Especially shipments to Europe and USA are taking much longer than before and so we would like to cut down the time period for processing the order as well as we believe that going forward if we have to grow, we will need this additional manpower to see to it that we are able to sustain the growth and not get into any kind of situation where we delay the execution. And we believe that this increase will get compensated by the increase in turnover. So, the percentage cost of manpower over a higher turnover would practically remain same or might even go a bit lower.

Moderator: Thank you. Our next question is from line of Karthi with Suyash Advisors. Please go ahead.

Karthi: A couple of things one is so, can you talk a bit about the U.S. customers that you are referring to large ones, what is the profile of these customers, what kind of requirements do you have. And therefore, how should one take a hit on that?

Management: Sorry, can you repeat your question because I have not been able to hear it properly.

Karthi: In the early part of your commentary you spoke about negotiating with a couple of large US customers who are big users of gears. I am just trying to understand the profile of these customers and the nature of requirements that can emerge from there?

Management: These are large customers in steel and cement sector. First of all, the biggest challenge has been to get our brand and company accepted with these customers. Since we have international customers even in India with big brand names so it is helping us because the references in India are also acceptable to the client. Normally, when these clients want to try you out they give you a small order, of smaller size gear units, put them to test and if they work satisfactorily then you are an accepted brand name which is accepted even for the large projects, large quantities or large gearboxes. So, this the first step is to get a small order from them and get yourself accepted.

So, this is the phase we are in and we believe that the gearboxes of ours would be working well and then that would open up a large opportunities in the future.

Karthi: Sure. And the second thing is marine orders, is that already included in the 280 crores of inflows that you referred to or is this after the quarter?

Management: No, it is not included. It has just been received in the last two or three days.

Karthi: Okay, great. The third part of it said is that the seven crore negotiation that you spoke about, does it often happen that your customers do back and forth and hassle on price at the time of settlement, or how exactly does it arise, it's a bit odd for you to settle old contract after the period. So, just curious to understand why this happens?

Management: No, this has happened just because of the steep increase in the price from January to April. Which a vendor has suffered and accordingly they just came and we consider that request because our all vendors are generally, most of our vendors are associated with us last more than two or three decades. And they have supported us during our challenging time. So, it is also our duty to hear for their take and support.

Karthi: Right. And lastly sir on the CAPEX that you spoke about. Just want to understand one thing, I heard you about preserving cash for potential requirements, but the solar power thing, I hope that's not necessarily a tax saving device because that would be fairly myopic view of capital allocation so just curious to understand.

Management: No, it is not for my tax saving avenue, I don't think now any such kind of tax revenue is available, it is only towards our responsibility towards the green energy and environment. We also are exploring our company to the ESG and that's a part of our process towards the ESG.

Management: Our retention is to see to it that we minimize our power bills going further, because when there are good times, if we make these investments then during the recessionary trends, those kinds of expenses are not there. Apart from that it is our environmental responsibility also, we are seeing the global warming situation. So, we feel also very conscious that we have to do our part of the aspect where we go as green as possible and improve the environment situation.

Karthi: Sir just elaborating the question asked earlier by Sachin, you may end up having 600 crore of cash over the next two years based on the cash flows, fairly substantial amount would there be an opportunity for you to deploy such large cash in your business account?

Management: Our intention is first to collect the cash, because as quite often what happens is when you have been in such a severe debt situation in the past, one wants to be a bit careful. So, we will sit on the cash for a while and then look for opportunities at the right moment.

Moderator: Thank you. Our next question is from the line of Pratik from Kedia Securities Private Limited. Please go ahead.

Pratik Kedia: I just want to know a little macro view about how the CAPEX is shaping up, the steel prices as you know after 2020-21, they had shot up, then they came down but they're still higher than what they were in pandemic. So, in this kind of a scenario everybody benefits with the CAPEX, CAPEX should be better this time though. Are we seeing that happening, what is your view or it will be good to have your view on this.

Management: I believe that the CAPEX cycle is here to stay because, it's very cyclical thing. And India has gone through that cycle where there were investments in the past and for the last almost seven, eight years, there was a lull period in the CAPEX cycle. So, now the things are turning around, and India being a country where the growth potential is very high, I believe that this CAPEX cycle, everyone who is in the management always feels that India is poised again to grow. We all know that the per capita cement consumption, steel consumption, everything is at a much lower levels than what they are at the international levels. So, considering those facts, I believe that more and more investments have to come in to take care of the demand. So, I am a firm believer that India has no choice but to grow.

Moderator: Thank you. The next question is from the line of the Disha Kansara with Molecule Ventures. Please go ahead.

Disha Kansara: I just wanted to know what is the order flow for this Q1 FY22 order. Sir, my question was what was the order inflow in Q1 FY22?

Management: Yes, it was 283 for gears and 40 for material handling.

Disha Kansara: Sir, this is for Q1 FY23 right, I want to know about Q1 FY22?

Management: Can we get back to you later.

Disha Kansara: Sure, sir no problem. Sir my second question was, what kind of opportunity do you see in the FGD system?

Management: Sorry, can you come back again, there is a lot of static noise behind.

Disha Kansara: Sir, my question was what kind of opportunities do we see in the FGD system?

Management: The FGD systems has a good potential not only for the gears but also for material handling. We are not directly involved in it but we expect that over a period of time we would create some alliance to pursue that.

Moderator: Thank you. Our last question is from the line of Ritesh Chaudhary an Investor. Please go ahead.

Ritesh Chaudhary: Just wanted to know that 130 crore of order which you said has come in for the marine business it is not added in the current order book, right?

Management: No, it's not been added because it's just come in. It's fresh out of the oven.

Moderator: Thank you. This concludes our question-and-answer session. And now, I would like to hand the call back over to the management for closing remarks.

Management: Thank you. Basically, the first quarter results have been robust. And going forward, we are not seeing any challenges till the year end, because we have reasonable orders on hand. As long as the economy is concerned, we believe that the CAPEX cycle which has started will continue, which will give us a reasonably good order inflow. Apart from this, we are seeing that the inquiry levels at the export end are also healthy, which would be converted into good orders going forward. And we believe that we are poised to now grow and also see to it that we generate sufficient cash for us, so that we remain a debt free company for a long, long period of time. So, with this, I would say that we are very thankful to you for taking so much of interest in Elecon Engineering and if there are any questions that you come across in the future, do not hesitate to communicate to us and we will get back to you as soon as possible. So, thank you all and wishing all of you the very best. Thank you.

Moderator: Thank you. On behalf of PhillipCapital that concludes this conference. Thank you for joining us and you may now disconnect your lines.