18th July, 2023

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 Investors Call held on 12th July, 2023

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 8th July, 2023, please find attached herewith the transcript of the Investors Call held on 12th July, 2023 for Q1 of the Financial Year 2023-24.

The same is available on the website of the Company at https://www.elecon.com/investors/audio-video-recordings-and-transcripts-of-post-earnings-quarterly-calls

You are requested to take the same on your records.

Thanking you.

Yours faithfully,
For Elecon Engineering Company Limited,

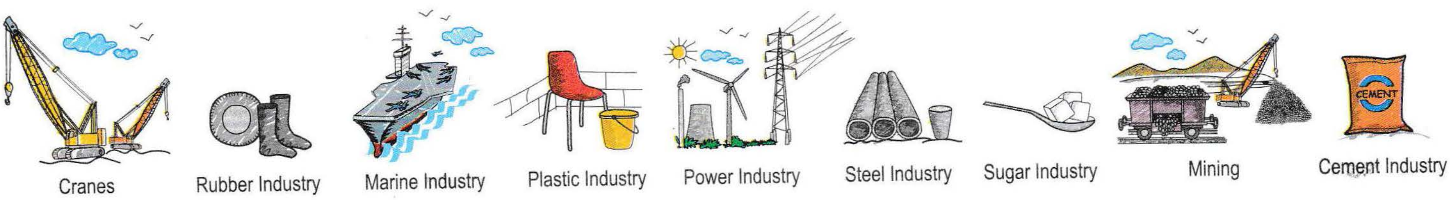
BHARTIBEN
LALITKUMAR
ISARANI

Digitally signed by BHARTIBEN LALITKUMAR ISARANI
DN: c=IN, o=Personal, postalCode=388001, st=Gujarat, serialNumber=F4C51B6318E6ACAB9D278CCF2D6CA7B880331CFFA3DA32BEF38E61C2C76BC835, cn=BHARTIBEN LALITKUMAR ISARANI
Date: 2023.07.18 18:49:37 +05'30'

ELECON ENGINEERING COMPANY LIMITED
V.V. NAGAR

Bharti Isarani
Company Secretary & Compliance Officer

Encl.: As above



ELECON ENGINEERING COMPANY LIMITED, Anand - Sojitra Road, 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 ‘24 Earnings Conference Call”

July 12, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 12th July 2023 will prevail.

MANAGEMENT OF ELECON ENGINEERING COMPANY LIMITED	**- MR. PRAYASVIN PATEL – CHAIRMAN AND MANAGING DIRECTOR**
	- MR. AAYUSH SHAH – NON-EXECUTIVE DIRECTOR
	- MR. M.M. NANDA– HEAD OF GEAR DIVISION
	- MR. P.K. BHASIN – HEAD OF MHE DIVISION
	- MR. KAMLESH SHAH – GROUP CHIEF FINANCIAL OFFICER
	- MR. NARASIMHAN RAGHUNATHAN – CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, welcome to the Q1 FY24 Earning Conference Call of Elecon Engineering Company Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinion and expectations of the company. As on the date of this call, this statement do not guarantee the future performance of the company, and it may involve risk and uncertainties that are difficult to predict.

As a reminder, all participants 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 star then zero on a touch-tone phone. Please note that this conference is being recorded.

Now I hand over the conference to Mr. Prayasvin Patel, Chairman and Managing Director for Elecon Engineering. Thank you and over to you, sir.

Prayasvin Patel: Thank you. Good evening and a warm welcome on our Q1 FY24 earnings conference call. Today on the call, I am joined by Mr. Aayush Shah, Non-Executive Director; Mr. M. M. Nanda, Head of Gear Division and Mr. P.K. Bhasin, Head of MHE Division; Mr. Kamlesh Shah, Group CFO; Mr. Narasimhan Raghunathan, CFO. We have uploaded our financial results and press release on the stock exchanges and on company's website. And I hope everyone had an opportunity to go through the same.

I will start my opening comments with industry insights followed by business overview, post which Kamlesh Shah, our Group CFO will take you through the financial and operational performance of the company for the quarter ended June 2023. India's GDP has continued its upward trajectory and has emerged as the fastest growing economy. This growth is supported by robust private consumption, increased industrial activity and strong investment activity, strengthened by the government efforts to boost capital expenditure.

The strong demand in sectors such as power, steel, cement, sugar, mining and infrastructure coupled with emphasis on industrialization and localization through initiatives like Make in India and PLI schemes is driving the growth. Furthermore, India's strategic focus on attracting global supply chains especially through strategies like China presents a significant opportunity for the country to become a prominent manufacturing hub. This shift has created a surge in demand which is benefiting India.

For overseas business, we have been witnessing increased inquiries for our diverse range of products indicating a positive trend in the market. To capitalize on these favorable conditions, we are increasing our marketing and sales activity for our overseas business. We are going to set up a wholly-owned step-down subsidiary in South Africa to cater demand for our products in the African continent. We have signed off on five OEM business in European market with an estimated annual business volume of approximately Euro 5 million. This development is encouraging and moving towards a strategy to tap and gain momentum in European markets.

With more penetration across OEM, we are also building a creditable reference and a brand for our products in these markets. We are committed to becoming the preferred supplier in these markets and are actively engaging with OEMs to achieve this goal. Expansion into new territories and increasing our market share in existing geographies represents another significant growth opportunity for us. We have been diligently working towards establishing a strong brand value for Elecon in order to capitalize on these prospects.

The milestone of signing-off of the OEM business in overseas market and robust domestic demand gives us the confidence in delivering a strong performance and upholding our commitment to achieve consolidated revenue of INR2,000 crores with an EBITDA margin of 22% by FY24.

Moving on to segmental performance. For Gear Division, we proudly hold the position of being one of the largest solution providers of industrial gears. Our commitment extends beyond maintaining this position, as we actively seek new opportunities within niche industries. By significantly enhancing our technological capabilities, we have solidified our position as an industry leader with 39% market share in FY23 against 34% in FY22 in the Tier 1 domestic market.

We continue to see the conversion of strong order inquiries into growing order book, reaffirming our market strength and the trust placed in our products and services. We target to achieve INR1,700 crores of consolidated revenue for this division by FY24.

We have also launched our EON 2.0 series in the last quarter and have been witnessing positive responses from multiple customers across industries and also overseas. This EON 2.0 series has multiple features in terms of operations and maintenance of the product and can pose cost advantages to the customer. We continue to focus on R&D and product development as we strive to deliver high quality, industry-agnostic and customizable products that ensure customer satisfaction.

Through consistent investments in technology and operations, we have successfully reduced the lead times, thereby enhancing our operational efficiency.

Speaking of the MHE segment, we are experiencing a surge in demand in the MHE division, fueled by revival of the capex cycle and strong demand from industries such as power, fertilizers, cement among others. In the past 12-to-18 months we have successfully turned around our MHEdivision resulting into a profitable business. Our strategic approach has involved focusing on supply of products and aftermarket business, while discontinuing our involvement in EPC project businesses. This shift in strategy has proven effective and aligned with market demands. With these positive developments, we reaffirm our target of achieving consolidated revenue of INR300 crores in FY24. We are confident in our ability to attain this target through our strategic focus, streamlined operations and leveraging the trust in Elecon brand and service.

Lastly, we remain aligned with our vision to maximize value creation for every stratum of society. By aligning our vision with ESG, we have the power to drive positive change, contribute to a more sustainable future and create long-term value for our stakeholders.

With this, I would like to hand over the call to Mr. Kamlesh Shah, our Group CFO for financial highlights of Q1 FY24. Over to you Kamlesh.

Kamlesh Shah: Thank you sir. Good evening, everyone and a warm welcome to our Q1 FY24 earning call. As already said, we have uploaded our Press Release on the stock exchanges. I will now take you through the highlights of financial results for Q1 FY24. Revenue from operations or total revenue from operations on consolidated basis stood at INR414 crores as compared to INR328 crores in Q1 FY23, registering a robust growth of 26%. The domestic market accounted for 73% of the revenue with the remaining portion coming from overseas market. Adjusted EBITDA for Q1 FY24 stood at INR96 crores marking a growth of 33% compared to INR72 crores in Q1 FY23.

Adjusted EBITDA margin for Q1 FY24 stood at 23.1% as compared to 21.9% in Q1 FY23, an increase of 120 basis points year-on-year. Profit after tax for the quarter was INR73 crores representing a remarkable growth of 72.5%. PAT margin witnessed a significant improvement of 470 basis points. Our focus on operational efficiency and market diversification has contributed to this performance.

Moving on to the segment wise contribution, industrial gears accounted for 87% of the revenue while material handling equipment division contributed around 13%. Speaking of the industrial gear division, consolidated revenue stood at INR361 crores for Q1 FY24 reflecting a growth of 27% compared to the same period last year. The EBIT for Q1 FY24 stood at INR89 crores, indicating a substantial growth of 60% compared to INR55 crores in the corresponding quarter of the previous year.

The EBIT margins for Q1 FY24 stood at 25%, representing an increase of approximately 500 basis points on year on year. The order intake for Q1 FY24 for gear division amounted to INR446 crores highlighting a strong demand in the market. As of June 30, 2023, the open orders stood at INR655 crores further emphasizing the robust demand. Speaking on the MHE side, revenues for Q1 FY24 stood at INR54 crores showcasing a growth of 25% compared to INR43 crores in Q1 FY23. This growth serves as testament to the successful strategic turnaround, translating into a strong quarterly performance.

The EBIT for Q1 FY24 stood at INR12 crores, representing an impressive growth of 163% Y-o-Y. The EBIT margins improved to 23% from 11% in Q1 FY23, reflecting an improvement of approximately 1,200 basis points. Increase in the margin for MHE was on account of change in product mix and higher sale of after sales and repairs in this quarter. MHE division order intake stood at INR51 crores with a closing order book at INR138 crores as of 30th June 2023.

Furthermore, our total consolidated order book including both divisions experienced order inflows of INR497 crores during Q1 FY24 and the total open orders as of 30th June stood at INR793 crores. As discussed earlier, we are pleased to announce that we have successfully signed off five original equipment manufacture business agreements in the European market. These agreements have an annual estimated business volume of approximately EUR5 million.

The prototype development of this OEM project is currently in progress with an aim of supplying this by Q3 FY24. We anticipate commencement of commercial production in FY25. The agreements signed with this OEM demonstrate our ability to deliver globally competitive, high quality products and our confidence in capturing a significant share of the European market. We have made progress in recovering funds through arbitration awards. As of June 30, 2023, we have received INR27.4 crores out of the total awards of INR63 crores and we expect an additional realisation of INR4 crores by Q2 FY24.

Furthermore, we have initiated fresh arbitration proceedings with a total value of INR31 crores during Q1 FY24, outcome of which may take 1-2 years. We are confident of a positive outcome. Furthermore, I am pleased to announce that Elecon has made a significant improvement to its balance sheet. As of June 30, 2023, we are a net cash surplus positive of INR250 crores at the consolidated. On this note, I would like to open the floor for question and answers. Thank you.

Moderator: Thank you very much. The first question is from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.

Kashyap Javeri: Thank you so much, sir, and congratulations on a really great set of numbers. I have three questions. One, you know, on the INR1,700 crores targets for the Gear division for the year, this now implies that we have about INR450 crores of revenue per quarter for, you know, the balance to be quartered. And similarly for MHE also, the asking rate is definitely higher. So, what are the sectors which is giving us confidence of giving that number, obviously also has gone up quite a bit? So one is to look at that.

Second is on the margins, the guidance that you have given in the press release at about 22% for the full year, even adjusted for about INR4 crores of the GST right back, our margins are still very strong for this quarter. So is 22, like a base case margin, and there is an element of positive surprise to that. And the third question is, what is the net cash on balance sheet as on 30th of June? These are the three questions.

Kamlesh Shah: On account of the sustainability of margin 22%, Yes, we are confident it is minimum 22% margin is sustainable at consol level. There is a scope for improvement which we see however presently it is difficult we can spell out that you know what will be the margin for the entire year Q2 will be a right time for us to spell out that margin any improvement for that? So far the net cash surplus is coming, as I already said, we have the net cash surplus of INR250 crores as on June 30, 2023. About the business, Mr. Nanda will just give a highlight.

M.M. Nanda: You see, we are getting very good business from various sectors you know in India as a matter of fact and overseas also basically. As already explained you know that we are now focusing on overseas business from the customers OEMs also which we already got in our scope you know from Europe primarily which we are just highlighted. And our main focus area, which we are expecting more business to come from, you know, Europe and Africa, where we are concentrating. And we have already indicated various areas where we are getting the business like steel, sugar, cement. We have already highlighted in our presentation, you know, how much business we are getting from all these sectors, you know. I hope this will answer your questions, you know. Hello?

Kashyap Javeri: Yes, I, sorry, I missed out in between. My question was that even in overseas business, whether it is heavy industrials or whether it is process industries, what is driving the demand? And a connected question is that if I look at our annual report for FY23, most of our subsidiaries overseas, the sales growth in the local currency was quite muted. So what gives us this confidence, even at this point of time that, from here on in terms of growth, you know, overseas can actually contribute equal or more.

Prayasvin Patel: See, first of all there is a big thrust on trying to get more OEMs that is original equipment manufacturers in our fold as customers so that we are able to get consistently higher requirements of orders that is number one and which we have started doing now aggressively. The other thing is we are putting a lot of thrust in enhancing our marketing infrastructure abroad, whereby we would be able to generate more inquiries as well as get more business. So these are the strategies that we have taken up. Apart from that, we have given thrust, we have penetrated now into areas where we were not there before, certain countries in South America, Australia, etcetera, which is giving us great opportunities abroad.

So we are reasonably confident that we will achieve the targets that we have laid out for exports this year and going forward. We are also improving our responses for our export companies abroad so that we are able to respond to finally our customers abroad in a much better fashion.

Kamlesh Shah: In regard to your other question, last year the sales is muted. But if you consider the impact of Russia-Ukraine war at the beginning of year itself, even after considering the impact for that, we have sustained our revenue as well as EBITDA.

Kashyap Javeri: Okay.

Prayasvin Patel: This is also in spite of the fact that there has been a recessionary trend in Europe and United States, the aftermath of COVID.

Kashyap Javeri: Right. And we remain confident of doing better this year despite that versus what we did last year.

Prayasvin Patel: Absolutely.

Kashyap Javeri: Okay, thank you so much. I'm done.

Prayasvin Patel: Thank you.

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique Portfolio Managers. Please go ahead.

Pratik Kothari: Hi, good afternoon and thank you. Sir first of all my hearty congratulations on such a remarkable performance and highly appreciate the team for the improvement and disclosures that we have done this time. So, my first question is on this five OEM orders which we won. So, if you can highlight a bit more qualitatively in terms of the kind of customer segment that we intend to cater to, are these new customers? What kind of products are we developing for them?

Prayasvin Patel: These are customers, they are Original Equipment Manufacturers from Europe and they are into to various segments from steel, to rubber, to plastic, to various other industries. So we are reasonably confident that we have to deliver some prototypes which after those being approved by them, we will start getting regular orders.

Pratik Kothari: These are not new products for them, we would already be doing this locally?

Prayasvin Patel: We have delivered similar kind of products because these are custom-made solutions for the clients. But we do this for very many clients. It is a very standard kind of thing because you have to meet their specific requirements.

Pratik Kothari: And so I believe this would just be beginning of a journey or relationship with them in terms of they trying out or giving us a smaller batch of order. So potentially, I mean, where can this lead to, may be a few years down the line?

Prayasvin Patel: It is difficult to say because, you know, it will all depend on the supply and demand of their products where they incorporate our gearboxes. But as of now, we feel that there is a very strong potential that it will lead to a sizable business.

Pratik Kothari: Correct. Sure. So my second question is, we are seeing heightened ordering in railways, specifically Vande Bharat, even in wind energy. So just do we have any plans to be present there, or are we there? What are our thoughts here?

Prayasvin Patel: We are making inroads into metro gears, gears which are utilized in the Metro trains. As well as we have also made inroads with a foreign company who is manufacturing gears for the railway industry internationally. And therefore, we believe that this will lead to more business in the coming future.

Pratik Kothari: Correct, this would be traction gearbox?

Prayasvin Patel: Yes, traction gears.

Pratik Kothari: Correct, and I mean, in the past, we used to be large player in gears for windmills, I mean, anything there?

Prayasvin Patel: No, because the reason is, we have purposely stayed away from windmill gears. The reason being that, though they look to be very attractive. They are highly inconsistent in their demands because it is always subsidized by the government windmills and it is based on government policies whereby the demands can fluctuate widely and which quite often puts a sizable amount of pressure on the suppliers, either for excess capacity requirements or for manufacturing and then equipments lying with the suppliers for a long period of time. So we have purposely tried to stay away from them.

Pratik Kothari: Correct. And sir, my last question on the defense and marine business. I believe, we have some after-sales service which is already ongoing for the project that we have delivered on. Any comments on any new project coming up, anything which is moving?

Prayasvin Patel: Yes, what is very heartening is that by the end of the year, we expect some good orders coming in from the marine sector or the defense sector. And the next two years also look to be extremely promising.

Pratik Kothari: Thank you, sir, and all the best.

Prayasvin Patel: Thank you.

Moderator: Thank you. The next question is from the line of Divesh Mehta from Dinero Wealth. Please go ahead.

Divesh Mehta: Congratulations on the great set of numbers. I have two, three questions. I just wanted to understand on the replacement demand. So in the first quarter, how did the replacement demand panned out and how much it was in terms of overall sales?

Prayasvin Patel: The replacement market for material handling business as well as for gears varies from year-to-year. The demand this year, this quarter has been healthy. But going forward, it will adjust itself to the annual consistent level.

Divesh Mehta: So, sir, how much it was for this quarter, as a percentage of sales?

Kamlesh Shah: Yes, one minute. So, in all put together, this quarter, it works out to be nearly 33% for MHE and gear, both put together.

Divesh Mehta: Okay, both together. And, sir, actually I missed on the part of the open order book on the both gearboxes and MHE divisions, can you give that figure also?

Prayasvin Patel: Sorry, can you repeat it please?

Divesh Mehta: Can you help me to understand the open order book for gearboxes and the MHE division, I have missed on that part.

Prayasvin Patel: Yes, I will give you those figures. The total is 793, which consists of 655 from gear and 138 from MHE. These are the open orders as of 30, June 2023.

Divesh Mehta: Okay. And sir, the recent four new orders which you've bagged, that will be for the engineered products, right, and neither for the catalog products?

Prayasvin Patel: It is a combination of all.

Divesh Mehta: Okay, it's a combination. Okay, thank you. That’s it from me.

Moderator: Thank you. The next question is from the line of Anish Jobalia from Girik Capital. Please go ahead.

Anish Jobalia: Sir, congratulations for a good set of performance and also for getting enrolled into the OEM market. So just wanted to understand one thing, domestic business, we have, we aim to do between the gears and material handling close to INR1,500 crores odd out of this INR2,000 crores odd, right. So I just want to understand, I had checked with you earlier also, in the earlier quarters about, how your thought process is shaping up in terms of further growth in FY25. So, if you can just help to understand, the quality of the growth, which is driving, our, the quality of the demand, which is driving our growth and how sustainable are we seeing, this 25% growth to continue beyond ‘24 also?

Prayasvin Patel: See, if you look at our performance, we have been growing and let me assure you, we will continue to grow because there are a lot of segments that, we are now emphasizing on. One of them is exports. The other one is the marine business coming out of the defense sector. Plus, there are new products that, we are developing, there is also the new EON series that we have developed, so all in all, we see a rosy picture going forward.We would be able to sustain this kind of growth and who knows, if the markets are favorable, we may be able to even exceed them.

So we are very gung-ho about the situation and as I had said earlier, we are emphasizing a lot on exports. We are setting up new infrastructure, enhancing infrastructure in various countries, so that we are able to focus in a much better fashion on exports and give them the necessary support that they require from head office.

Anish Jobalia: And secondly in terms of the international revenue, so I think out of this INR2,000 crores, we will be doing close to INR500 crores from the exports. So what I am seeing is that, the international companies are getting signed up, so they will be starting to contribute from '25. So from INR300 crores odd, in the last year, this incremental growth of INR200 crores, so how is this going to come without the support of the OEM business and from FY25 onwards, how much has the potential from the OEMs that you are signing up and will potentially further sign up to add to this INR100 crores base?

Prayasvin Patel: See as of now, as we speak, we have enough inquiries on hand and on interacting with various branches and segments of the industry, marketing industry, they are extremely confident that we will be able to achieve our targets this year. Apart from this, as you rightly said, that the OEMs with whom we have signed contracts plus other OEMs, where we have given offers, plus projects, plus new requirements, we are confident that, we will be able to sustain this growth over a period of time.

Anish Jobalia: Okay, sir. All the very best for the future. Thank you.

Prayasvin Patel: Thank you.

Moderator: Thank you. The next question is from the line of Sanjay Kumar from ithought Financial Consulting. Please go ahead.

Sanjay Kumar: Hello, sir. Congrats on winning five new OEMs. Q2 FY23, I had asked you about it and you delivered in nine months or so. So great work. Can you help with the total outstanding OEMs that we used to work with and how has it changed in the recent past, the number of OEMs that we work with?

Prayasvin Patel: It depends from region to region. There are various areas, where we are working with OEMs. It starts from the Far East in the Singapore zone that we have, to areas like Africa, especially South Africa, and then, we have OEMs in Europe as well as OEMs in South America and in the United States. So it is very difficult to say, these are the ones that we have recently signed off with they are all in Europe. These are new OEMs that we have encountered. They have high potential and going forward, we are reasonably confident that, we will be able to get good amount of business from them.

It is difficult to ascertain as of now, as to how much business would come our way but they are promising a lot to us. We are assessing the situation on our own, considering the recession in Europe as well as the Ukraine-Russia war as to whether the figures that they are committing to us, are reasonably correct or not. But they seem to be even filtering all this out, they seem to be very promising.

Sanjay Kumar: Okay. But these five OEMs, who were they buying from earlier? That will give us an idea of the, our potential?

Prayasvin Patel: It is difficult to ascertain because some of them were buying from China and some of them have new requirements, which have come our way, etcetera. So it is difficult to say.

Sanjay Kumar: Right. We will be supplying from India or will it be through Benzler Radicon?

Prayasvin Patel: Both. We would, originally it would be manufactured in India. It may be supplied through Benzler Radicon Group or it might be directly. It depends on, which client are we talking about.

Sanjay Kumar: Good, .And second, you had mentioned in your press release about opportunities in Africa. What are you seeing, what is driving this, and if it would help us with the market size of Africa, or at least, the markets that you are targeting there in Africa?

Prayasvin Patel: If we talk about the South African market, South Africa is a hub for the entire Africa because it is one of the most advanced countries in Africa and they are very strong on minerals and minerals mining as well as the technology of mining in minerals. They set up turnkey plants normally to mine various products, which could be gold, it could be copper, it could be various other minerals. When they set up the complete plant, these plants require good quantity of gearboxes, which normally are either bought from Europe or from United States. This is where we have penetrated and we intend to penetrate more and more, over a period of time.

Apart from that, there are mines in Africa, where quite often, the purchases happen in South Africa and that is also, where there is a huge potential of replacement business as well as new requirements for these mines. So this is, what we are targeting. Apart from that, there are a good number of industries in South Africa and these also require gearboxes, which we intend to cater.

Sanjay Kumar: What will be the market sizes, of these things that you mentioned?

Prayasvin Patel: Market size? To tell you honestly, I will email this information to you.

Sanjay Kumar: Yes, sure. That will be helpful. And finally on traction motor gearboxes, you said that, we previously supplied a few components to Indian Railways and specifically on Metro, I have seen Voith IGW's, Gearboxes in the Metro coaches. So are we in touch with them?

Moderator: Hi Sanjay, I'm sorry to interrupt you there to ask further questions. I would request you to please join back the queue. Thank you.

Prayasvin Patel: But the answer is yes.

Sanjay Kumar: You're in touch with Voith?

Prayasvin Patel: We would be in touch with gearbox suppliers, the likes of Voith and Voith themselves.

Sanjay Kumar: Okay, and will it be a JV or will it be a tech transfer?

Prayasvin Patel: We will be a supplier to Voith and to the others like that. So there won't be a JV.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Good evening sir and congratulations for a very good set of numbers. I just have two questions. First is, sir, the scalability of these five OEMs, what it could be in the next two, three years from the current level of what you mentioned around EUR5 million?

Prayasvin Patel: As I told you earlier also, and I will again repeat that it is very difficult to ascertain that because quite often the OEMs they give you a requirement which quite often varies in quantity because depending on the, their market situation and the competition that they experience but as I have ascertain that our intention first is to give them a prototype, get it approved and then look for quantities and I am hopeful that as of now the information that they have given to us seems to be quite promising. However, on our own we are trying to ascertain how much of quantities we are likely to get and what it would mean in rupees and paisas.

Ankit Babel: Yes, sir, because in the previous conference calls you did mention that the size of each OEM could be INR40 crores, INR50 crores in terms of revenue potential. So from that angle I was trying to understand that does these OEMs also have that kind of scalability over a period of time or not, based on your assumptions only?

Prayasvin Patel: As I told you, the potential is high, let me put it this way. But as I told you, they always say that once you get the purchase order in hand, that is what confirms everything. So but the potential is high.

Ankit Babel: Okay, I understand. And my second question, again, it's a repetitive question, so sorry for that. But you said that the industry tailwinds currently are very strong, both in domestic market and overseas market. And you are in the process of getting a lot of approvals from the overseas markets from various OEMs, that also visibility you have. And so just to reconfirm, you mentioned that you are going to sustain the current growth rate at least for the next couple of more years. I mean, this year you'll be growing at 30% is what you're guiding. So this 30% growth is possible for next two years. I mean, FY25 and ‘26 also, considering the current visibility what you have?

Prayasvin Patel: I won't say that tailwinds are affecting us. As a matter of fact, I would say that the tailwinds are an opportunity for us. Okay, because like these new OEMs that we have got, this is the time when the customer is, our customer is looking for new suppliers. So this is opening up doors for us because he feels that he wants someone who is more competitive, he wants someone who is giving better services etcetera.

So he is looking for someone else to fulfill his needs and that is where we step in and that is how we get this opportunity and this normally happens during the tailwind situation. So I look upon it as an opportunity and that is where we have been able to score over the existing suppliers that exist as of now. And as far as we are concerned, we are reasonably confident that we will continue to grow.

The percentage of growth is difficult to ascertain year-on-year. We have a visibility for this year, but we will be able to reconfirm it by the end of the second quarter. However, going forward, we have great expectations for which we are enhancing our infrastructure to see to it that we are able to cater to the customer's needs.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Yes, thank you very much, sir, for the opportunity and many congratulations for a good set of numbers. Sir, I wanted to understand a couple of things. Now, this quarter itself, what was the arbitration award that we received?

Kamlesh Shah: No arbitration award we received in earlier period. We have realized the money now. Arbitration award was already there with us.

Deepak Poddar: So is there any amount that is coming to P&L in this quarter?

Kamlesh Shah: No, there is nothing in P&L. All is in the balance sheet and the cash flow directly.

Deepak Poddar: So one off in this quarter is only INR4 crores, right? The GST right back. So even if...

Kamlesh Shah: Yes, that is only right back of GST which in earlier quarter we have made a provision for that. But considering the, some kind of, work on account of cross charge mechanism, we have utilized. We get an opportunity to utilize that.

Deepak Poddar: So even if we adjust that our EBITDA margin this quarter is close to 23% to 23.5%, but for the entire year we are kind of looking at 22%. So is there anything, I mean, any pressure on your margins or going forward in coming quarters that you foresee because of which we are kind of guiding a little tapered down margins?

Kamlesh Shah: At the beginning of the year, we are already informed we are going to have some cost on account of brand building in the overseas market. So that has not turned out in this quarter, that may turn out in the next two next quarter. So that is the reason we are doing average margin of 22%.

Deepak Poddar: That's quite helpful. And my second question is on your, the second question is on your MHE division. I mean the EBIT margins that we are seeing is quite good, right at 23%. So is that a sustainable kind of margin that we see going forward?

Kamlesh Shah: Yes, sustainable margin we should consider 18% to 20%. Due to the product mix, we are on the supply of equipment and after sales service, the margin may undergo a change.

Deepak Poddar: Understood. And then sir, whenever we bid for any order, so what is the minimum margin that we kind of keep it for ourselves, both in the MHE and the gearbox division?

Prayasvin Patel: It varies from project-to-project and from order-to-order. So it's very difficult to ascertain.

Deepak Poddar: Understood.

Prayasvin Patel: We have tried to maximize our margins and let me tell you one thing that we will continue to try to maximize our margins on a consistent basis. I am reasonably confident that we will be able to sustain the kind of EBITDA margins that we have right now and going forward, the general impression that I have is we may be able to improve it also.

Moderator: Thank you. The next question is from the line of Subham Agarwal from Aequitas. Please go ahead.

Subham Agarwal: Yes, thank you for the opportunity. So my first question is related to the cash that we have. As earlier mentioned, we have close to INR250 crores now. So I wanted to understand, given that there is no major capex coming in, what will be our capital allocation strategy going forward?

Prayasvin Patel: The cash that we generate, we try to invest it so that we get the best possible returns at the lowest possible risk. And going forward, we are creating this kitty, which would be helpful to us in case there is any need for the organization to either diversify, acquire, or utilize it for the benefit of the organization in the near future.

Subham Agarwal: So are there any specific areas that we are looking at in order to diversify or increase our capability by acquiring some assets? Are we in the process already?

Prayasvin Patel: No, we are not in the process. However, this is a kitty which would be useful in case that opportunity arises.

Subham Agarwal: Okay. And, sir, my second question is related to the exports. So obviously, given our strategy of increasing export in terms of total revenue, this will be an area which will grow for us. And we have put a lot of effort in the last two years in this particular segment. So I wanted to understand, A, how satisfied are you with the current progress that we have and B, what is the challenges that you are facing to achieve the milestone that you have set for the company?

Prayasvin Patel: If you are asking about the level of satisfaction, I would say the first year has gone in trying to organize ourselves. But now I feel that it is now taking a sizable traction and going forward the way that our marketing people are -- I'm seeing the confidence in them, I believe that we would be very, very much bang on target this year as well as in the future.

Moderator: Thank you. The next question is from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: Sir, thank you for the opportunity and superb set of numbers. So congratulations. Sir, I wanted to understand, Yes, I wanted to understand how much is the total order book in defense right now and what kind of operating margins, do we have specifically in defense since they are large gears?

Prayasvin Patel: The margins would vary from project-to-project so it would be difficult to tell you as to what would be the margins.

Gunjan Kabra: Sir, on a blended or average basis if you can say, I mean in defense?

Prayasvin Patel: I would put it this way that it will depend on the kind of competition we have, the kind of product it is, etcetera. But all I can tell you is that as of now, all the or the recent project that we did was profitable and we are striving hard to see to it that the profits are reasonably good in this business.

Gunjan Kabra: Okay, and sir how much is the order book from defense right now?

Prayasvin Patel: The order from defense right now.

Kamlesh Shah: We don't have any kind of project order as on today, it is a small other than the gearbox requirement or otherwise, those kind of orders are there. So it's not material. Generally, we consider that kind of order on and maybe a small amount on account of the spare kind of business, which is to the tune of INR100 crores plus.

Gunjan Kabra: Okay. I have also heard the order intake in this seasonally weak quarter has been around INR442 crores, which was you know very high in the very good quarter, last quarter, which was around INR370 crores. So has the business momentum, I mean is it because of more of export or good order booking in India right now?

Prayasvin Patel: I would say right now the product mix from export, domestic, and the marine business all put together in this quarter has been reasonably okay and the demand is coming from all sectors and we are expecting good orders from all these three sectors.

Gunjan Kabra: Okay and sir, you are guiding of good prospects as well. So, INR2,000 crores revenue if we achieve this year then I think we'll be operating at the full capacity utilization so the further growth if we are not doing any capex then further growth how will that come I mean are we not looking towards capex or because I just wanted to understand where will the growth that we think it can come will come from if we don't do capex?

Prayasvin Patel: The capacity utilization as of now is approximately 76%. So there is the potential to further scale it up and this is where today there is hardly any subcontracting. If we add subcontracting possibilities together with the additional gap in capacity that we have, I still feel that we can do nominal capex which is required for modernization and upkeep. Apart from that, I do not think we will need any more capex for at least the next two, three years.

Gunjan Kabra: Okay. And sir, this is the last question. Sir, standard products is around 47% this quarter and customized was around 53%. So are we targeting more of customized from next and more of standardized or is it on order basis whatever you receive?

Prayasvin Patel: It is on order basis whatever we receive. We never say no to our clients. Every order is welcome.

Gunjan Kabra: Okay, so we don't have any target of having more of customized or more of standard?

Prayasvin Patel: I don't think it is in our hands. It depends on what the customer requires and we have ongoing customers, 70% of our customers are repetitive and we can't go and tell them that you buy only this. So we accept the order with a smiling face whatever they give us.

Moderator: Thank you. The next question is from the line of Pujan Shah from Congruence Advisers. Please go ahead.

Pujan Shah: Hi, sir. My question would be on the patented product. So in the previous presentation, we have shown that we are waiting for three patents for the approval. So, can you just give the sense about that and how, what the market size would be on that specific segment? And which product are we going to get that patent for the specific?

Prayasvin Patel: The new EON series that we have developed is what we are trying to patent as well as there are other few products. The potential is reasonably high because this is in the catalog product range and but it is difficult to put a value to it right now because it will depend on how well it is accepted in the market. Though right now there is a substantial amount of traction on these new series that we have developed, but it is difficult to put any figures to it.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for the closing comment.

Prayasvin Patel: Thank you. I take this opportunity to thank everyone for joining the call. We will keep updating the investor community on regular basis for incremental updates of our company. I hope we have been able to address all your queries. For any further information, kindly get in touch with us or strategic growth advisors or investor relation advisors. Thank you once again.

Moderator: Thank you. On behalf of Elecon Engineering Company Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.