

17<sup>th</sup> May, 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 11<sup>th</sup> May, 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 11<sup>th</sup> May, 2022, please find attached herewith the transcript of the conference call held on 11<sup>th</sup> May, 2022 for Q4/for the Financial Year 2021-22.

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

You are requested to take the same on your records.

Thanking you.

Yours faithfully,  
For Elecon Engineering Company Limited,



**Bharti Isarani**  
Company Secretary & Compliance Officer



Encl.: As above



Cranes



Rubber Industry



Marine Industry



Plastic Industry



Power Industry



Steel Industry



Sugar Industry



Mining



Cement Industry

**Gearing industries. Gearing economies.**



“Elecon Engineering Company Limited Q4 FY-22  
Earnings Conference Call”

**11<sup>th</sup> May, 2022**



**MANAGEMENT: MR. PRAYASVIN PATEL – CMD, ELECON  
ENGINEERING COMPANY LIMITED  
MR. KAMLESH SHAH – GROUP CFO, ELECON  
ENGINEERING COMPANY LIMITED  
MR. NARASIMHAN RAGHUNATHAN – CFO, ELECON  
ENGINEERING COMPANY LIMITED**

**Moderator:** Ladies and gentlemen good day and welcome to Elecon Engineering Company Limited Q4 FY22 Earnings Conference Call. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sarda from Ernst & Young. Thank you and over to you sir.

**Binay Sarda:** Good morning to all the participants on the call. Thanks for joining this Q4 FY 22 earnings call for Elecon Engineering.

Please note that we have mailed out the results and you can also see the results and presentation on our website as well, it has been updated in the stock exchanges. In case if you've not received the same you can write to us and we'll be happy to send the same over to you.

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

To take us through the results of this quarter and answer your questions we have with us the Management of Elecon Engineering represented by Mr. Prayasvin Patel – CMD, Mr. Kamlesh Shah – Group CFO and Mr. Narasimhan Raghunathan - CFO. Mr. Prayasvin Patel will give a brief overview of the quarter gone past and then we'll open the floor to Q&A session. With that said I would now handover the call to Mr. Prayasvin Patel. Over to you sir.

**Prayasvin Patel:** Thank you Binay. Good morning, everyone. Ladies and gentlemen, a very warm welcome to our Q4 and full-year FY2022 conference call. We are extremely delighted to have recorded the highest profits in the history of the company and we look forward to achieving many more milestones in the years to come.

Discussing the results at the standalone level; during Q4, the total operating income stood at Rs. 245.8 crores compared to the Rs. 273.2 crores in the corresponding quarter of the previous year. The EBITDA on absolute basis stood at Rs. 50.7 crores as compared to Rs. 57.5 crores during the corresponding period of the previous year. This translates into EBITDA margin of 20.6% in Q4 FY22 compared to 21.1% in Q4 FY21. We closed this quarter with a net profit of Rs. 33.5 crores as compared to Rs. 22.4 crores during the corresponding period of the previous year.

Let me highlight few points related to the results:

Gear business continued to witness traction amidst strong demand environment. As you are all aware, we successfully completed one of the most complex and sophisticated Defence gearbox as part of “Make in India” initiative recently. In MHE business, performance has substantially

improved post change in business strategy and the company has made decent progress on recovery and also closure of few legacy projects. We continue to focus on improving profitability and liquidity of the division and have received the balance amount for one project while balance for other two projects are expected to be cleared in FY23. Also, our continuous focus on debt reduction has led to significant decline in interest cost over the quarters.

Now coming to standalone FY22 Results:

The total operating income stood at 884.4 crores compared to Rs. 796.1 crores in the previous year. The EBITDA on absolute basis stood at **Rs. 184.2** crores as compared to Rs. 143.8 crores during the previous year. This translates to EBITDA margin of 20.8% in FY22 compared to **18.0%** in FY21. We closed quarter with the net profit of Rs. 95.5 crores in FY22 as compared to Rs. 36.3 crores during the previous year. Total debt of the company reduced from Rs. 100.02 crores as of 31<sup>st</sup> March, 2022, compared to Rs. **225.29** crores as of 31<sup>st</sup>, March 2021.

Coming to consolidated financials of Q4 FY22:

The operating revenues was Rs.329.7 crores as compared to Rs. 350.1 crores in Q4 FY21. We recorded an EBITDA of Rs.68.5 crores as compared to Rs. 73.5 crores in Q4 FY21. EBITDA margin stood at 20.8% in Q4 FY22 as compared to 21.0% in Q4 FY21. Consolidated profit after taxes stood at Rs. 46.3 crores for Q4 FY22 as compared to Rs. 31.6 crores in the corresponding period of the previous year. During the quarter, our overseas business under Benzlers and Radicon registered a revenue of Rs.86.8 crores with an EBITDA of Rs.18.2 crores.

Consolidated FY22:

The operating revenues was the Rs. 1203.6 crores as compared to Rs. 1044.3 crores in FY21. We recorded an EBITDA of Rs. 246.4 crores as compared to Rs. 185.3 crores in FY21. EBITDA margin stood at 20.5% in FY22 as against 17.7% in FY21. The consolidated profit after taxes stood at Rs. 140.5 crores for FY22 as compared to Rs. 57.6 crores in the previous year. We continue to work towards gaining a strong foothold in USA, Canada and Latin America where we are witnessing positive momentum in order intake and revenue. It is heartening to note that all our overseas entities have become profitable and we expect further improvement in profitability going forward. We are planning to invest in marketing and business development as part of the strategic initiative towards establishing global brand entity, identity and enhance business growth across overseas entities. We are seeing healthy ramp up in order booking with orders worth 212 crores booked in gear business and orders worth 114 in material handling business during the quarter. In the gear business the orders on hand is 410 crores and in MHE the orders on hand is 127 crores.

We continue to focus on further cost reduction, optimum utilization of existing capacity and enhancing operational efficiency. The company is exploring new growth avenues to augment capacity utilization. Also, we are working towards strengthening our balance sheet and reducing our debt and other liabilities and become net debt-free by 2023. Demand environment continues

to improve and Elecon continues to focus on strategies to create long-term value for shareholders. In line with our growth aspirations, the company has set a revenue target of 1,500 crores by FY24 and an outline CAPEX plan of Rs. 100 crores over a period of 2 years. We have formulated strategies to improve export contribution with the target to reach 50% of the overall revenue by FY30. Despite temporary headwinds in external environments Elecon is well-poised for growth going forward and we remain confident of further improvement in performance in coming quarters. Thank you all.

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

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Pritesh Chheda from Lucky Investment Managers.

**Pritesh Chheda:** My first question is with respect to the MHE business. What is the amount left to be received on account of retention which helps us improve our balance sheet? When we are looking at the swing in EBIT number is it fair to assume that all do old projects must have been closed and all costs overruns have been incurred for and we will start seeing some improvement in profitability considering the new MHE order executions whenever it starts because you've got MHE order flow 127 crores?

**Kamlesh Shah:** In regard to the numbers, I think I would say about that and so far, the overall business is concerned the CMD may pitch in. In terms of profitability and what we are discussing there is no over-run cost now presently pending. All our legacy projects in terms of the execution we already completed that we mentioned in our presentation also. And of which we have already realized the money from one of the legacy projects. So far, the other two projects are concerned we are now working towards completing some of the documentation part as a part of the process for the closure of the project. As soon as the same is getting cleared we will also realize our retention money which is pending the customer.

**Pritesh Chheda:** What is that amount?

**Kamlesh Shah:** It is nearly 100 crores for us, net 100 crores which is retention money which is receivable from the customers. Going forward if you see about FY22-23 onwards, we see that the growth will be there in terms of the revenue. However as already discussed in our earlier calls, we are now focusing main on the supply of our MHE materials and our CSD business which is after sales service business. And with that we are quite confident our profitability will improve going forward.

**Pritesh Chheda:** At whatever 150-200 crores of business, you must be underutilizing your asset in MHE. What kind of margin actually you will make at that kind of business?

**Kamlesh Shah:** In terms of the margins that if you see, we will definitely be at least (+10%) in terms of the margin on the absolute value. If you are looking for EBITDA margin it will be between 15% to 20%.

- Pritesh Chheda:** In MHE?
- Kamlesh Shah:** MHE I am talking.
- Pritesh Chheda:** My second and last question is on the gears business, if you could share what kind of growth do you see in FY23? There is always this case for Marine gearboxes that we tend to execute in a particular year and you have that base etc. It would be helpful if you could just share based on whatever your best guess is what will be the growth in gearbox for '23? Should we look at similar (+20%) EBIT margin that we are recording on that because that Marine gearbox does have their swing factor of a higher margin, so a comment there would be very helpful?
- Prayasvin Patel:** Let me tell you that. Right now, we are expecting a growth which is above 30% in our gear business and we believe that the margins would further improve. The reason is first of all the orders that we have existing on hand is practically at the new target levels for this year is consuming about 5 months of production. These are orders with healthy margins and going forward while the Navy business is going to reduce for this year, not totally to zero but it will reduce in value, but on top of it, we also have the debt reduction which is the saving in interest which is going to add to the bottom line. Considering that we expect that we will have healthy profitability and higher profitability than what we had last year in absolute value.
- Pritesh Chheda:** My guess is when you including interest, you're referring profitability at PBT level, will there be a margin expansion at operating level also?
- Prayasvin Patel:** PBT level, not yet. That also should happen because of the fact that the utilization of the assets is going to further increase which means that my fixed cost will go down. At the EBITDA level the fixed costs will go down. It will help me at the EBITDA level. The interest costs will help me at the PBT level.
- Pritesh Chheda:** When you mentioned 30% gear growth so that means that your 1500 crores revenue.
- Prayasvin Patel:** Above 30%.
- Pritesh Chheda:** Your 1500 crores FY24 target, there is a high likelihood that it actually can come in 23 itself.
- Prayasvin Patel:** Yes. We have been cautious in giving figures. Otherwise, there is a possibility that we may exceed that.
- Pritesh Chheda:** Lastly the interest costs because now your debt stands to reduce to zero in '23 but there would obviously be some working capital requirement during the year. This 37 crores interest costs that we see for FY22 what kind of interest costs would you incur in '23? Because you will use some during the year or we have to assume zero interest costs now?
- Kamlesh Shah:** By FY23 we will be net debt free however we do use the working capital to take the interest because our exports are improving now. We are going for the credit facilities which will be in

the foreign currency or may be with the interest subvention which is available to us. With this our interest overall finance cost will substantially reducing this year. It will not be zero because as on 31<sup>st</sup> March we are having some portion of credit facility available. That we are going to pay off in this year anytime but our projection for this year would be nearly 12 crores maximum that we are going to incur as the finance towards the interest.

- Moderator:** My next question is from the line of from Shubham Agarwal from Equitas India.
- Shubham Agarwal:** My first question is related to the gear division. I wanted to understand what is the current demand scenario on ground because in your presentation you have mentioned that in April, we have received a significant order? I wanted to understand from where are we getting orders. And the second part of the question would be to understand the raw material cost pressures, Q-on-Q we have seen a jump in RMC cost. I would want to understand given the short cycle nature or our order are we able to completely pass on and this will get normalized from the coming quarter or do we see some headwinds there?
- Prayasvin Patel:** First of all, right now as we speak, we have an outstanding order, orders worth 490 crores. No time in our history we've had such a value of outstanding orders in the beginning of the year. That is a very healthy sign because going forward we believe that this would help us catch a tremendous amount of momentum. That is number one. Number two is basically let's put it this way that our manufacturing cycle is very short cycle. Therefore, the raw material cost increase is not affecting us to that an extent. Apart from this, our validity of the offer is hardly one week to 10 days which means if the prices increase it is subject to corrections. Therefore, we believe that almost 98%-99% of the orders while the prices increase would incorporate the new prices.
- Shubham Agarwal:** Secondly on the MHE division also, the order inflow seems to be very healthy. I wanted to understand from where are we getting this order and what is the specific nature of this order book?
- Prayasvin Patel:** Because we have changed our strategy in material handling, what is happening is that a majority of our business is also coming from the after sales which is revamping or modernizing material handling plants as well as giving services and manufacturing spares and delivering to the customer. Now, these are highly profitable business and therefore the margins are quite healthy. The new orders that we take in are from products and in these products, we tend to have a reasonably good margin as well as extremely good payment terms because we should get all our payments by the time we supply or deliver the unit to the customer. So, there is no retention.
- Shubham Agarwal:** Out of this 127 crores what would be our aftersales quantum?
- Prayasvin Patel:** Almost to the tune of 80 to 100 crores.
- Shubham Agarwal:** Typically, if you can just explain me how the unit economics in this aftersales workout to be? At operational level how much margin can we make?

- Kamlesh Shah:** On the operational side what you are looking for the profitability for the aftersales. Naturally, the aftersales service will have the better margin compared to the pure product supply. That is what but it will be difficult to spell out because it will be different for, not different orders of the CSD but it will be nearly ranging. It will have the ranging of 25% in the overall process.
- Shubham Agarwal:** 25% at EBITDA level you are saying?
- Kamlesh Shah:** Yes, at EBITDA level. It's an approximate figure but it would have a different number will be there.
- Shubham Agarwal:** Lastly, given the strong increase in the material prices. I wanted to understand for a customized product, how are the customers reacting because the prices have gone up significantly? Are you seeing any delay their side with regards to project execution?
- Prayasvin Patel:** Normally no, because what has happened is this time over everyone has started accepting the fact that the prices have increased and they are willing to give you that price increase without much of hesitation because in turn they are taking it up with their final clients that the prices have increased then you have to accept it. As a matter of fact, because the money supply situation also is reasonably healthy, today the acceptability of price increases is also relatively reasonably well-accepted.
- Moderator:** Our next question is from the line of Pratik Kothari from Unique Portfolio Management.
- Pratik Kothari:** My first question on the CAPEX, I believe after many years that we have announced substantial prices, your thoughts where do we intend to spend it?
- Prayasvin Patel:** The CAPEX is I would put it into three parts. One is we are spending reasonably large amount on alternative energy which means to supply us with green energy which is for installation of solar plant as well as windmills to compensate for the electricity that we consume. The second part would be we are utilizing for replacing few of the machine tools which have become extremely old to replenish them with new machines and new technology. The third one is for slight enhancement of capacity if we find that there is a certain area where the capacities are not balanced.
- Pratik Kothari:** It's fair to assume that our current capacity utilization will be able about 50%-55% on the gear side?
- Prayasvin Patel:** Yes.
- Pratik Kothari:** In past conference calls we had mentioned that we were receiving some additional enquiries from the Navy for the project they had already executed and further orders on that. Any further highlights on about the same?



- Prayasvin Patel:** Unfortunately, the Navy quite often it depends on particular project but quite often they are extremely slow. Unfortunately, the speed at which they have been going forward has been relatively slow but we hope that they will start acting fast on it.
- Pratik Kothari:** This 1500 crores over 2 years that's standalone guidance that you are giving, that's a standalone aspiration, not at a consolidate level?
- Prayasvin Patel:** Yes standalone.
- Moderator:** Our next question is from the line of Manan Shah from Moneybee Securities.
- Manan Shah:** What is the current mix between domestic and export of our order book in the gear division?
- Prayasvin Patel:** About 10% to 12% is the export. Over a period of time, we want to enhance it. We are likely to be around about 15% to 17% by the end of this year but we have plans to enhance it to slowly and gradually bring it to a 50% level.
- Manan Shah:** I believe we had been focusing on building our market in the USA. If you can just give some color how has been the acceptance of our products and what sort of engagement, are we receiving enquiries, if you can just throw some color on that part?
- Prayasvin Patel:** What has happened is that there are few clients in United States who have given us a chance and an opportunity to supply them with gear boxes and they have been installed now and some of them have started work. Once they start working and the customer feels confident with our product it normally follows up with more enquiries and more orders. We are in that transition phase but I'm sure and confident that this will lead to more business as times go by because we are also seeing more enquiries coming in and that is the beginning. We believe that going forward the potentials seems to be very good and these are differences would also act in our favor because today whatever we may say and show references all over the world, they would have more confidence if it is a local reference which means the reference in United States. That is what we are right now targeting on and that will help. Similarly, is the situation with South America because we supplied a few units and the customer has been extremely happy. That has led to more orders inflow.
- Manan Shah:** Lastly on the gear division; what sectors are driving this order inflow if you can just guide on that part, whether it's the sugar or the power or cement if you can just guide on that part?
- Prayasvin Patel:** Yes. A majority of the orders or a sizeable portion is coming from steel industry followed by cement and then sugar.
- Manan Shah:** Coming to the material handling division; at what revenue level would this division break even because I believe we've scaled down this division to a considerable extent but still at what revenue level are we expecting this division to break even?

- Prayasvin Patel:** It is already breaking even as of now because of the fact but because of the high interest costs and because of the legacy orders that we had on hand where the bleeding was there, it was consuming or increasing our losses. Now with the bleeding having stopped from the projects as well as the legacy orders having stopped and the interest cost having reduced it will keep on giving us higher margins.
- Manan Shah:** This is 127 crores of order book for how many months of revenue would this translate into?
- Prayasvin Patel:** Almost I would say 8 to 10 months. It depends. If the order inflow increases, we will ramp up the production level because we have substantial capacity. Right now, as we have targeted it is 7 to 8 months or almost 8 to 10 months of order booking for us. But as I told you if we get more orders, we will ramp up the output.
- Manan Shah:** Lastly over what timeframe are we expecting this 100 crores of retention money to be received and will this money primarily be used for repayment of the debt or how are we planning to use this retention money?
- Kamlesh Shah:** This 100 crores of which some are already in arbitration where the arbitration is in our favor. And customers made a further appeal to the court, as already mentioned in presentation of March '22 we received appeal order for one of the customers. That court has given the order in favor of the company. So however, we don't know when but our target is to get this money in this year or maybe latest by September '23 sometime. That is what our entire process is. We are confident most of the chunk we will get it clear before March '23 and this payment will be used. So far, the debt reduction is concerned that we have not considered this payment because we don't know how the cash flow will spelled out in current year. However, our debt reduction process will be out of our profitability during the current year only.
- Moderator:** Our next question is from the line of Sanket B from Kedia Securities.
- Sanket B:** Just wanted to understand how will the funding for the CAPEX go which you are planning for 100 Crores? Will it be from internal accruals or you will look to take debt?
- Prayasvin Patel:** There will be no debt that would be taken. This 100 crores is the maximum outer limit that would be spent. Normally what happens is while we plan 100 crores a reasonable amount gets spilled over to the next year because of the fact that you order a machine tool and quite often they take 10 to 12 months for delivery. I'm sure that all the 100 crores is not going to be spent. The second thing is that whatever that we buy for CAPEX that will be all funded from internal accruals. We do not intend to take any outside debt.
- Sanket B:** And by when can be expect this 100 Crore to come and use by end of FY24.
- Kamlesh Shah:** Yes. Over the period of 2 years. As we have anticipated now it will be over the period of 2 years, we are going to spend 100 crores.

**Sanket B:** Secondly if you look at the last 10 years performance for our company but the EBITDA margins which we are recording now which are upwards of 20% and working capital days also have reduced substantially. One of the best what we have managed over last decade. How will this trend continue for next 3 or 5 years if you can tell something about it?

**Prayasvin Patel:** The recession has taught us one basic lesson that we do not want to go for any external debt. That if the recession comes in again, we do not want to be in a similar situation as we were there in the past which means we want to make sure that there is no debt that the company incurs. On the other hand, whatever profitability, and earnings that the company does it will try to invest it very judiciously either in new technology or savings of any kind so that they are helpful to us during the rainy days. On the other hand, if the demand continues the way it is, we are sure that the results will keep on improving further and further. On the other hand, we are also giving a thrust on exports which is an area where you would be able to hedge against the recession if it happens domestically which means if there is a recession in India, normally there is no reason why there should be a recession in Europe or in United States. So, which means the cycles being different of recession you would be able to get an automatic hedging. Considering all these factors we believe that we are going to be able to accrue and amass good amount of wealth for the shareholders in the future years to come, especially because of the fact that if the company becomes debt-free the risk and the burden of carrying interest during the recessionary period would minimize.

**Sanket B:** Given our current utilization levels of about 60% to 65% and also, we being in business of providing customized gearboxes to our customers. Like how much time do we take to turnaround or execute our orders and what is the maximum potential we can make use of our capacity?

**Prayasvin Patel:** We make various kinds of gearboxes. The time taken for standard catalog gearboxes is between 4 to 6 weeks. If you talk about custom built gearboxes it can vary from 3 months to almost 6 to 8 months. So, it is fairly varied. What I can say is that the capacity utilization can further be improved upon by new orders in both the sectors, custom-built gearboxes as well as catalog gearboxes. There's a potential to grow even further if there is a need or requirement. The other thing is right now the subcontracting levels are at very minimal levels. If we utilize subcontracting to further enhance our output there is even a possibility of going beyond 2,000 crores.

**Moderator:** The next question is from the line of Sunil Kothari from Unique Portfolio Management.

**Sunil Kothari:** My question is on, looking at the Indian government's effort towards procuring Defense equipments, spares lot to import like locally and a substitute imported lot of Defense products and Navy is a very major part of the Defense which imports so many things, gears, spares, and all. Do you see any opportunity for us over maybe next 2-3 years, not immediately but to develop or re-engineer some gears or refurbish something in your thought process on this opportunity?

**Prayasvin Patel:** We have been given an opportunity to look at the Army requirement gearboxes for tanks' servicing and rehauling or overhauling them. That is number one. Number two is within our group we have also appointed a special person to look after the entire Defense process. He had just been recruited but we are looking at these aspects seriously and I'm sure that would help us in the future years.

**Sanket B:** We are planning to add almost 600 crores of revenue during next 2 years in standalone size which is almost nearly 900 crores we are projecting 1,500 crores by '24. So, these 600 crores revenue can come measure from MHE, also you are planning to do some sizeable because your statement in this our result also talks about significant turnaround. We are focusing on profitability and liquidity. So separately your thought process on MHE over next 2-3 years vision. I think the 600 crores must be coming from may be 300-400 crores from gear and another 100-200 from MHE, if you can simply this projection.

**Prayasvin Patel:** Yes, as you can see that in material handling, we have gone away from contracting business. However, I have explained earlier and I will again explain that we have the widest range of products in the material handling business. They also get consumed by a lot of our competitors because a lot of competitors are contracting company which buy products from outside and even the companies who are manufacturing may not manufacture the complete set of all the products. Therefore, we sell our products even to the competitors. There is a good potential if the power sector or the coal handling business improves there will be a good demand for products. Apart from this we are trying to enhance our portfolio by bringing in products which are non-material handling but mechanical engineered products which would be able to utilize our capacities that give us a higher turnover. Apart from that we believe that because we are doing a sizable business from our CSD which is after sales or customer service, revamping plants, modernizing plants, giving them spares for utilization of the plants, improving the utilization of plants that has a high profitability. Considering all this I believe that this material handling division will definitely do a turnover in the future years to come between 300 to 500 crores. Because this year itself we are likely to grow to a good extent because we have outstanding orders to be of 120 crores.

**Moderator:** We'll take a next question from the line of Ankit Babel from Subhkam Ventures.

**Ankit Babel:** A few questions and a few clarifications, first the clarifications. You mentioned what would be the interest cost for FY23? It was 37 crores in FY22 considering the fact that we were planning to become debt-free.

**Kamlesh Shah:** As already said our interest cost for FY23 will be upto Rs. 12 crores.

**Ankit Babel:** I didn't get the number.

**Kamlesh Shah:** Will be up to Rs. 12 crores.

- Ankit Babel:** This 30% growth which you are targeting in your gear business. So again, the clarification. So, you ended this year at Rs. 1,068 crores at a consolidated level. So, on this base you are targeting a 30% growth in the next year?
- Prayasvin Patel:** Can you repeat the question please?
- Ankit Babel:** You are targeting a 30% growth in your gear business in the coming year. So, in FY22 you ended at around Rs. 1,068 crores at a consolidated level. So, on this base you are targeting a 30% growth?
- Prayasvin Patel:** No, I am talking about growth of the gear turnover individually.
- Ankit Babel:** You mean standalone basis?
- Prayasvin Patel:** Standalone basis, yes.
- Ankit Babel:** At consol level what kind of growth you are looking at?
- Kamlesh Shah:** Our consol turnover is Rs. 1,200 crores not Rs. 1,000 crores because...
- Ankit Babel:** I am talking just on the gear business. 1,068 which you have reported in your segmental?
- Kamlesh Shah:** noted
- Prayasvin Patel:** As I told you it is on a standalone basis for the gear portion only. Isolating it from the material handling division, we are not talking about material handling division.
- Ankit Babel:** I got that point. What I'm trying to ask is that at a consolidated level gear business, what kind of growth you are looking at. So just for your this thing, the base is Rs. 1,068 crores so on this base what growth you are targeting?
- Prayasvin Patel:** Approximately I would say, Kamlesh bhai can you exactly work out the figures and see.
- Kamlesh Shah:** What we have planned...
- Prayasvin Patel:** Because I have both the figures separately.
- Kamlesh Shah:** Consol level our growth we are expecting at 20%.
- Ankit Babel:** I will just repeat. There was an unrealized FOREX loss of Rs. 27 crores in FY22. Now considering the fact that you have short, cycled order book so is it fair to assume that it will reverse fully in FY23 or how about it?

- Kamlesh Shah:** I don't know from where you got this Rs. 27 crores. I don't believe that we have the FOREX loss of Rs. 27 crores.
- Ankit Babel:** It was there in your cash flow statement. Consolidated cash flow statement. That's item #9, unrealized exchange loss.
- Kamlesh Shah:** Can you just give me time. Shall I revert back to you? By the time let's discuss for the other questions if you have. I will revert back to you.
- Ankit Babel:** What is your total order book at the consolidated level? You have given 410 in the gear and Rs. 127 crores odd in MHE but you have Benzlers and other entities also overseas. At a consolidated basis what is your order book?
- Kamlesh Shah:** At consolidated our order book position as of 31<sup>st</sup> of March, it is Rs. 605 crores.
- Prayasvin Patel:** Kamlesh bhai, he is also talking about orders on hand with the foreign entities.
- Kamlesh Shah:** No, I am talking about the order on hand for the gear business of Rs. 605 crores as on 31<sup>st</sup> of March '22 and as on today.
- Ankit Babel:** Rs. 605 are gear and Rs. 127 crores for MHE so total order book is Rs. 732 crores?
- Kamlesh Shah:** Correct.
- Ankit Babel:** Is it right understanding?
- Kamlesh Shah:** Yes, correct.
- Ankit Babel:** In the presentation what you have mentioned Rs. 410 crores of order book of gear, is it on a standalone basis?
- Kamlesh Shah:** Yes, it is on a standalone basis.
- Ankit Babel:** Meanwhile when you gave the FOREX loss clarification.
- Kamlesh Shah;** Yes, I will do.
- Ankit Babel:** Just a request from our side. You know there is a long gap between when you declare your results and when you conduct the con-call. So, just a request that along with the results if you could just publish the presentation also, mentioning the order book details. It would be helpful for us to take a call. Just a request, along with the results, kindly release the presentation also.
- Kamlesh Shah:** Sure, noted, we will take care about it.

- Ankit Babel:** That's it from my side and meanwhile whenever you have the answer, please let me know.
- Moderator:** We will take our next question from the line of Pratik Kedia from Kedia Securities.
- Pratik Kedia:** I just wanted to know, it's nice to hear that we are getting lot of orders now from the steel segment. Just wanted to know like we were hearing an interview from T. V. Narendran from Tata Steel who mentioned that the steel industry was looking at an investment of Rs. 1 lakh crores expansion which is currently going on. So, can we expect more orders from this segment or like do we see some more orders coming in from this steel side?
- Prayasvin Patel:** Yes, we expect because see, the steel industry in India is reasonably matured and with large number of steel plants we are expecting more orders from steel not only in gear but also in the material handling segment.
- Pratik Kedia:** And also, in the private CAPEX side even we thought there's a lot of new private CAPEX also which has been coming in. How do you see this playing out and how do you see this benefiting the Elecon and how big an opportunity? Can all of this be for us?
- Prayasvin Patel:** What has happened is if you realize that gears go into a plant wherever there are electric motors. So, the potential if the economy is growing at a good substantial healthy rate, the requirement of gears will keep on increasing whether it is on the private sector or whether it is individual people putting up small plants or whether it is large steel plants or any other cement plants or things like that. The question is these cement plants and steel plants order in bulk while the individuals order in small quantities. That is the only difference but it is all the small pebbles which fill up the bucket. So, the requirement is continuously growing and that is why we are seeing that for the first time after many years, almost 4 to 5 months of our booking is already taken care of at the beginning of the year. And that helps us substantially in planning everything.
- Pratik Kedia:** Looking at our current utilization of our plants, we have enough capacity to cater to this kind of a demand which might come in?
- Prayasvin Patel:** Yes, that is the best part. With minimal CAPEX, we will be able to cater to this requirement. Why do I say minimum CAPEX is the fact that quite often in a particular area in the workshop, there could be a requirement to tweak in the capacity of a particular type of process which means that you find that the hobbing might be falling slightly short of capacity compared to the others, then you put in one machine and that will help you cater and jump to a larger extent in your turnover? That means balancing the capacities in short.
- Moderator:** Our next question is from the line of Niraj Mansingka from White Pine Investment Management.
- Niraj Mansingka:** When you say capacity utilization of the gear is 60-65 and you mean that these are the capacity utilization when you would end up making everything as a standard product. Is it a right assumption?

- Prayasvin Patel:** No. The right assumption is based on the turnovers that we have today. It is not only the catalogue products which are the standard products but also custom-built gearboxes. Because custom-built gearboxes take a lot of effort and energy because you have to design the product, get the right kind of raw material, put it all together so it is more time-consuming and requires even different kind of machine tools.
- Niraj Mansingka:** Then is it right assumption that at full utilization your revenue should be 50% higher from the current level. Is it right assumption to make?
- Prayasvin Patel:** Can you repeat it please?
- Niraj Mansingka:** Is it a right assumption to make that a full utilization of your gear business you have increased the revenue the 50%?
- Prayasvin Patel:** It would be difficult to say that because as I told you it will all depend on the product mix because it is like if you give me all the orders for only one type of gear type then it would be very difficult for me to produce. So, you need a combination and whether that combination would help me improve my utilization to an extent where it would give me further profits of 50% would be difficult to calculate.
- Niraj Mansingka:** The reason I am asking is that why was the need improve the capacity in the gears when we are still at the 60%-65% because we are still have a long utilization to go. So that's why it seem gearing too?
- Prayasvin Patel:** I didn't hear it properly. Can you repeat it please?
- Niraj Mansingka:** The question is that what was the need to add capacity in the gears when you are still running at 60%-65% utilization considering that you still have?
- Prayasvin Patel:** As I told you it is not to enhance the capacity to that an extent. It is tweaking the utilization because as I told you, you have to balance the manufacturing line which means that let us say you find that the hobbing is slower than the grinding then you have to enhance the hobbing to an extent that it will balance the grinding. It is optimizing the capacity. It is utilized to optimize the capacity. Otherwise, Rs. 100 crores or maybe Rs. 500 crores would have been less.
- Niraj Mansingka:** What was the gears export revenue share for the quarter?
- Prayasvin Patel:** Kamlesh bhai, can you please answer that?
- Kamlesh Shah:** If you don't mind may I request you to please repeat the question please?
- Niraj Mansingka:** What was the revenue share of exports in gear business for the quarter?
- Kamlesh Shah:** For the quarter it is 14% for the quarter Q4 '22.



- Niraj Mansingka:** You are getting reasonably good orders. Are you replacing some existing players or are you getting as the market itself is expanding?
- Prayasvin Patel:** The market itself is expanding.
- Niraj Mansingka:** And from the US, basically when you are getting orders, are you replacing some other exporters from other countries or is it? Can you give some color on that side as well?
- Prayasvin Patel:** There are two types of orders that we get in. One is there is a replacement of an existing gear box which is right now being utilized by the customer and the other one is a new requirement. Right now, what we're getting is the replacement of the old units which need a change at the customer end because either they are quite old or they are not performing to the satisfactory level. This we are talking generally and in most of the cases. There might be isolated cases where there could be a new requirement.
- Niraj Mansingka:** What is the sustainable expectation of your MHE after sales revenue that you all are looking at for the next year?
- Prayasvin Patel:** Kamlesh bhai can you answer that please?
- Kamlesh Shah:** Pardon?
- Niraj Mansingka:** What's the sustainable after sales revenues in MHE business?
- Kamlesh Shah:** That is what you mean to say, after sales service?
- Prayasvin Patel:** The question is what is the after sales revenue that you are expecting in gears?
- Kamlesh Shah:** In gears our after-sales service revenue we are expecting to the tune of nearly 20% to 25%.
- Moderator:** Will take our next question from the line of Kashyap Zaveri from Emkay Investment Managers.
- Kashyap Zaveri:** Three questions from my side. One on the previous question of that FOREX exchange rate loss. In the P&L where would this line item be included? Would it be part of other expenses or would it be netted as from other income because if I were to adjust for this number as well as let's say the bad debt write-offs that we have done which are reflected in the cash flow statement versus the reported EBITDA margin for the full year, the actual business level EBITDA margins would be significantly higher. So, if you can help us understand alongside the clarification that probably you are going to give on the same number, that's the first question. Second question is on a clarification on the order book. This Rs. 410 crores is as of 31<sup>st</sup> March or this is as of 30<sup>th</sup> April?
- Kamlesh Shah:** That is as of 31<sup>st</sup> March.

- Kashyap Zaveri:** I am just trying to reconcile the number. You had an opening order book of about Rs. 345 crores and closing order book of about Rs. 410 crores on standalone basis and there is an order inflow of about Rs. 212 crores but the gear division sale is for the quarter almost about Rs. 290 crores. So, order flow should have been higher or in this Rs. 293 crores there is a significant spares like what you mentioned for the full year number also?
- Kamlesh Shah:** Let me just give the answer one by one about your questions. On related to the FOREX loss...
- Kashyap Zaveri:** I have a last question also. I can probably spell out right now or I can.
- Kamlesh Shah:** Yes, please spell out.
- Kashyap Zaveri:** Radicon and Benzler if I look at EBITDA margins for the quarter, we have now almost crossed over there also almost about 20% number, just marginally higher. Now in terms of Radicon and Benzler now is that like the base margins that we can work with in future or is these margins one-off for the quarter?
- Kamlesh Shah:** Let me just give the answer for your first question related to the FOREX loss in the consolidated basis where it stands. The strength in comprehensive income because our overseas balances which are spread over the UK-USA and Europe, it is in the different currencies. While we are consolidating the same in the Indian rupees it will go as a comprehensive income and that is how it is translated and how it is spill out. So, it is nothing related to the loss. It is generally its consolidation entry it is there also.
- Kashyap Zaveri:** Let me rephrase my question here. What I want to understand is that in the P&L while this is in cash flow, this is part of the adjustments. In your P&L account it would be below the EBITDA item or it will be above EBITDA item?
- Kamlesh Shah:** It is below EBITDA. Now regarding your second questions for order book position of gear division. That Rs. 410 crores that order book position it is at 31<sup>st</sup> March but when we talk about the current level its nearly Rs. 490 crores but during the month of April there will also be a sale from that 31<sup>st</sup> March open order book position of Rs. 410 crores. That's why the difference will be there in that case.
- Kashyap Zaveri:** Your opening order book was Rs. 345 crores as of December '21 and you had an order inflow of Rs. 212 crores and sales during the quarter on a standalone basis was about Rs. 208 crores. In that case Rs. 410 crores wouldn't tally actually?
- Kamlesh Shah:** But some of them my order book position will be related to after sales service. Generally, that is not been considered as a part of that.
- Kashyap Zaveri:** And lastly on Radicon and Benzler?

- Kamlesh Shah:** Regard to the Benzler-Radicon the profitability margin; what we have seen during the quarter of 20% EBITDA margin but there would be a 1% or 2% plus or minus EBITDA margin will be there. That all depends upon how the order flow is there and from which country and from which territory we are getting the order.
- Kashyap Zaveri:** But it should be at least about let's say in that case versus 20% should be about 18%?
- Kamlesh Shah:** 18% to 20%-22% in between that range.
- Kashyap Zaveri:** For the full year next FY23?
- Kamlesh Shah:** FY23.
- Moderator:** We'll take our next question from the line of Karthi Keyan from Suyash Advisors.
- Karthi Keyan:** Just wanted to clarify a couple of things on capacity within the system. In terms of Radicon doing growth how would you support its growth? Is there sufficient capacity there? Would you use India to manufacture, some thoughts on that?
- Prayasvin Patel:** See basically all these foreign entities have assembly plants out there, which means the manufacturing takes place in India and the products are sent out there. Some of them are completely assembled out here and sent and some are partially assembled out there as well as completely assembled out there. There is no capacity shortage that will happen at the foreign entity levels. It will only be a requirement of additional manpower which would be required to assemble products if the demand increases. Does that answer your question?
- Karthi Keyan:** The demand outlook here?
- Prayasvin Patel:** The demand outlook as of now would be that they would be growing at the rate of about 10% to 15%.
- Karthi Keyan:** You were also looking at potential acquisition targets. Has there been anything that has been shortlisted? Is there an update available on that?
- Prayasvin Patel:** Not as yet, no. First, we will have to be debt free and even the acquisitions that we make would be either financed from our internal resources or by bringing in a strategic investor. We have no intentions of adding more debt to the company.
- Karthi Keyan:** One last thing. I know it's a bit of a boring question but the Rs. 600 crores odd of gear order book that you spoke about on a consolidated basis, that is the net order book. There is no overlap between how you count orders for India and especially the subsidiary order. I hope there is no confusion on that?
- Prayasvin Patel:** No, there is no confusion.

- Moderator:** Our next question is from the line of Gunjan Kabra from Niveshaay.
- Gunjan Kabra:** My first question is that see our growth is very much linked to the CAPEX cycle and after a long time there's a pickup in the cycle. But right now, in the inflationary environment and somewhere industrial power cuts are also prevailing. Right now, we have a good order book but how are you seeing this kind of an environment? Like is there a wait and watch kind of a situation in the CAPEX in the companies who are doing CAPEX and in some companies are also guiding about delaying the CAPEX for some time because of the inflationary environment. So, what is your sense on this?
- Prayasvin Patel:** Basically, we are seeing no difference. We do not see because here we are talking about let us large steel plants. Let us say that steel plants whether there is an inflationary trend or not they are going to go ahead and put additional capacities because they feel that there is a requirement which the nation will need and for which they have to set up the plant as of today and it is for future 10-15-20 years. That's the way they look at it. The perspective of right now there's an inflationary trend is not looked upon by the customer in that perspective, that is number one. Number two is, we are seeing no reduction in demand because the inquiry levels that we see right now are fairly high. The third thing is that we have a very robust order booking itself for the year which we are carrying. So, I don't see that changing the scenario to any extent.
- Gunjan Kabra:** The second question is on the how the gear business work? I mean what would be the price differential between say a standard product or a customized product?
- Prayasvin Patel:** Standard product is you select it from a catalog and it is mass produced and delivered to the client. As long as a custom-built gearbox is, suppose he has an old gear box and he wants the gearbox to fit in exactly in the same position on the foundation as well as use all his other joining products which are connected to the gearbox which are old then you custom-built it for his requirement. You have to design and engineer that product so that it suits his requirement and then you produce it. The other way is that you have a unique application. Then you built a gearbox for that application and then it is also custom-built for his requirement. I will give you an example. In Canada there was a requirement for producing electricity from sea waves. We had to design and engineer a gearbox specially for that requirement because that gearbox would be connected to an impeller which is like a fan. And then that would be connected to a generator and it would be sitting in a sealed container which is waterproof. So, this is a unique application for which we would have to custom-build a gearbox.
- Moderator:** Our next question is from the line of Akshay Kothari from Envision Capital Services.
- Akshay Kothari:** Can you give us the competitive landscape? Who are our competitors and so regarding that?
- Prayasvin Patel:** Yes. One of our competitors is Flender which is a German company who has got a manufacturing setup in India. The second one is Premium Gears. The third one is Shanthi Gears and a small a manufacturer called New Allenberry Works, NAW.

- Akshay Kothari:** The last thing which you talked with the earlier participant regarding that tidal energy project in Canada. So, there had been a documentary I think of Bloomberg Quick take regarding this tidal energy. Are we seeing any traction in any other parts of the world regarding this tidal energy?
- Prayasvin Patel:** Not as yet. From time to time if the requirement comes up then one can always engineer a product based on what the clients require. But as of now apart from Canada there has been no.
- Akshay Kothari:** Because as of now tidal energy is little bit difficult. There are a lot of headwinds to go through because there are certain requirements which are not being met so.
- Prayasvin Patel:** Even this Canada project got shelved almost at the last minute. The whole project got canceled because the funding from that particular state which was expected, was canceled. They didn't go ahead with the project.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I hand the conference back to the management for closing comments.
- Prayasvin Patel:** Thank you. I hope we have been able to satisfy you with the answers that we have given during this con call. My only contention to you is, right now the environment looks to be very conducive where the economy is growing. Apart from that if you look at our business, especially the gear business it is broken up into three parts. One is the sense to afford new demand which comes up from steel, power sector, rubber industry, sugar etc. The other one is aftersales which is the spares business and the third is exports. What we are seeing is that there is a traction in all the three verticals that I talked about and which is giving us a healthy backlog of orders and going forward we see that this year for sure is going to be extremely good. Going forward as of now we believe that for the next 2 to 3 years, the environment seems to be healthy for more CAPEX in the infrastructure area and which would lead to more order inflow for us. On the other hand, there is a big thrust that we are giving in the exports and we believe we will grow in that aspect also. The material handling business also, there is a reasonable traction which has now started taking place and we believe that we will get good number of orders from the steel sector also from cement and power is also picking up to some extent. All in all, all I can assure you is that while the opportunities are there the company is bound to do well because the investments have been met with or have been made already. Capacity utilization is still at a lower level where we can still produce more and supply to our customers. The debt is also reducing to a substantial level and going forward there will be surpluses which would either be invested judiciously in improving the turnover and profitability of the company or would be invested so that the returns are good. Considering all that we see a very positive future for our company. So, thank you all.
- Moderator:** Thank you members of the management. Ladies and gentlemen on behalf of Elecon Engineering Company Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.