



May 18, 2022

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Scrip Code : ELGIEQUIP

Scrip Code : 522074

Through : Digital Platform

Through : BSE Listing Centre

Dear Sir/Madam,

Subject: Intimation of transcript of the Analyst/Investors conference call

In continuation to our letter dated May 3, 2022, regarding intimation of Q4 FY 2021-22 Earnings conference call, please find enclosed the transcript of the analyst conference call held on May 16, 2022. The aforesaid information is also being made available on the Company's website viz., www.elgi.com.

This is for your information and records.

Yours faithfully,

For Elgi Equipments Limited

S Prakash
Company Secretary

Encl.: a/a

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**“Elgi Equipment Limited
Q4 and FY2022 Earnings Conference Call”**

May 16, 2022



ANALYST:

**MR. KAMLESH KOTAK - ASIAN MARKET
SECURITIES LIMITED**

MANAGEMENT:

**MR. JAIRAM VARADARAJ – MANAGING
DIRECTOR - ELGI EQUIPMENTS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Elgi Equipment FY2021-2022 Q4 Earnings Conference Call hosted by Asian Market Securities Limited. This conference call may contain forward looking statements about the company which are based on the belief, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. Actual result may differ from such expectations, projections etc., whether expressed or implied. Participants are requested to exercise caution while referring to such statements and remarks.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Kotak from Asian Market Securities Limited. Thank you, and over to you, Sir!

Kamlesh Kotak: Thanks Rutuja. Good evening, everyone. On behalf of Asian Markets we welcome you all to the Q4 and FY2022 earnings conference call of ELGi Equipments Limited. We have with us today Mr. Jairam Varadaraj - Managing Director, representing the company. I request Mr. Jairam to take us through an overview of the quarterly and the yearly finances and then we shall begin the Q&A session. Over to you, Sir! Thank you.

Jairam Varadaraj: Thank you very much, Kamlesh. Good evening, ladies and gentlemen. Thank you so much for participating in this call with us. As usual I will take you through a comparison of performance last year. I am not going to talk about Q4, I am going to consolidate and talk about complete year as a whole.

Revenue had a pretty robust growth; I will come back and talk about revenue little later. We did 25.2 million as against about 25.2 billion as opposed to 19.2 billion last year, so base is caused being pretty much at the same level as last year. Our EBITDA should have been about 4.8 billion instead it was about 2.8 billion, so I have to give you an explanation for about 2 billion. We had the first claim on profitability was freight to the extent of almost 1.2%-1.3% which was volatility in content availability freight work inward as well as outward, we will talk more about it later.

The second increases our employee cost, it is about 11% increase in our employee cost, I would say about 6% to 7% is the increments and 3%-4% is head count increase primarily in Europe as part of our strategic initiative part. Last year if you remember we had subsidies that we received from the US Government as well as the Australian Government for our operations there, that is about close to 240 million that is not available this year and finally the other fixed cost, I have gone up by 600 million, it is primarily travel, advertising and all the normal cost that we have generally occur in the course of normal contact of business because last year was such a compressed referrers, it looks pretty significant so, overall I would say that there is nothing to be

worried about except as far as the material cost changes and freight cost changes, that we will talk about it as we go along.

So, getting into sales, we overall grew about 30% at a consolidated level, like I normally do a review, I will start from Australia and work back to its West. Australia was a challenging year for Australia for multiple reasons, we had repeated instances of lockdowns in regions in Australia lockdowns due to COVID and that really affected quite a bit of our business there. In addition, because of the circumstances many of our contracts were delayed and project contracts and those has now been revised, so there was a delay there. Southeast Asia especially Thailand and Indonesia they had repetitive instances of COVID related lockdown and slowdown, the whole of that region of Australia and Southeast Asia was lower at last prior year.

Other than we move onto to India, India had a fantastic year. Tailwind at multiple levels we had the initial part of the year in the second wave that is in April-May we have seen to be a slow down but for a very, very short period, the markets picked back up as well as there was a huge requirement for compresses for oxygen which lasted almost into the middle of Q3 after that at the moment we do not do any oxygen related business, so even if you remove that oxygen business as a bonus year, it was still an outstanding growth from India, same with South Asia, Africa and Middle East probably the exception was Sri Lanka for obvious reasons, West Europe continues to perform above our plan, the sales are higher than what we had planned and losses are lower than what we had planned, so it is the initiative as so far it is in right track, so we had two more years of losses, plan losses but progressively lower losses in a next two years, so that would make it the five years and the six years when we are open to break even and probably show a positive number, so we are on track towards that.

Moving West North America had a very strong topline growth across all our businesses, Michigan Air was probably the only entity where the business was flat but that was because there was one large customer that went along with earlier brand that Michigan Air was selling but therefore there was a significant account but in spite of the loss of the significant account we have been able to maintain a flat line, so there is a good organic growth which sets the good foundation for the years to come, so everything looks good there.

Brazil had a phenomenal year, we grew but there was a lot of challenges on material cost, on freight cost, freight to Brazil went up almost four times to five times and that was a big challenge for us, in spite of it there was growth and profitability in Brazil. ATS or Automotive Equipment business also did exceedingly well as a record year both in terms of topline and profitability, so overall the business was good but there were quite a few challenges that we faced, I would like to talk about big one which is free commodity and freight cost increases.

If you wind back to the first COVID year which was 2020-2021, after the global lockdown Q1, business came back surprisingly strong and then September 2020 onwards there was the commodity prices started increasing and as a company we were not sure whether that was just a

blip or whether it is a permanent thing, so we did not react in the periods from October to December of 2020, January 2021, it started going down, it felt like it is going to normalize itself then second wave of COVID hit and the raw material prices started again shooting up, it was quite violent and very frequent, so this time around we said this is not something that is going to normalize.

So we reacted with multiple price corrections in the market but unfortunately every time we corrected there was again the goal post shifted and in industrial products, there is always a gap between price increase and price realization, so during the interim there was again volatility in the prices, so we were just playing catch up all the way until December, so in January we changed our strategy and we said it is not going to be a reactionary price increase, we are going to do a forward looking price increase which was a bit risky because it could also mean that we could become uncompetitive if we did two larger price increase but we had to do it because of all these changes, so which we implemented in February-March and even as we speak those prices are getting rolled out in various parts of the world.

It is still early dates to say whether we have recovered all the prices in the market, we think Q1 would be a good measure to indicate whether our strategy is right but the entire organization is now seized on the importance of price recovery and we are also seeing competitors responding in pretty much present passion, so overall I do not think there is any reason to be concerned about it. So, that is the thing, so that is really what last year was great topline but challenging contribution management margin, so net affect is it was a volume driven EBITDA performance not a margin driven EBITDA performance, we are hoping that both of them come together this year but again going into what we think this year is going to be all there are lot of indications that we could have some pretty significant headwinds this year but as of now there is indication of it but the writings clearly seen to be on the wall.

One is all the subsidies direct consumption subsidies that some of the large economy is pump into the market have all been withdrawn and is stucked, so just the US had a subsidy of \$3 trillion and that can be no doubt that these subsidies creative consumption or spurt consumption and that consumption really tickled into consumption of a lot of products and therefore the demand for capacities and investment, so really that is something that has been withdrawn, so we will have to see what is the impact of that.

The second is we have pretty much gone through two years as citizens pretty all over the world without spending too much vacation and travel and eating out and kind of the kind of entertainment, now all that is coming back and coming back to quite a bit of vengeance, so the money is that was earlier available for consumption of products, I believe is going to get diverted there, so therefore there could be an impact on consumption of products and therefore for capacities to build up, so this is third and of course we have inflation which is lurking in different parts of the world on top of it we have the Ukraine war with its some negativity.

So all this kind of if you have to summarize it, we have to expect some headwinds, so we are watching this very carefully. The Indian market enquiries, our order conversions are still pretty strong, Europe and US are still reporting very strong enquiry levels and interest levels in the market, Australia is coming back from a very weak last previous year, so that is also positive, so we expect as of now either headwinds are not visible but I think we should anticipate and plan for it, that is one thing in this year and the second is on the material cost we hope that the projected cost that we have made are within well adequately take care of the actual increase in material cost, so far in the last two and a half months barring some little bit of volatility here and there, the actual projections remained but we still have another month- month and a half to go and we will have to see what is the volatility in this period.

The third dimension that is see challenges on people cost, 2019-2020 there was no increment in 2021 we made some marginal into increases considering still an uncertain period, now with the talent mark for talent really bursting, we will have to step up to the plate and we will have to do something to retain our key talent, I am not talking about across the board increase but even deeply differentiated compensation system for our key talent would result in some significant increases and people cost.

Two years of COVID have really spoiled us in terms of looking at fixed cost and we have got huge to doing business with very low fixed cost and customers supported that but now customers are increasingly expecting that we are in front of them, the virtual calls are no longer acceptable, so these are cost that are going to go up, freight is going to be another area that we need to watch out for. One of the things that we have realized the last challenge that we see is one of the things, it is not a challenge it is actually an opportunity is what we see is that the organization has grown and some of our controls in systems have not kept pace with the growth in the organization not just in terms of scale but also geographical complexity, so we will be investing in some initiatives pretty significant initiatives during the year to raise the standards of our systems and control because these are fundamental that we need to put in place, so this is really the way the year that went by and we expect the year that has just begun, so again thank you for joining us and I will be happy to take your calls.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Ravi Swaminathan from Spark Capital Advisors Limited. Please go ahead.

Ravi Swaminathan: Good evening, congrats on a very good set of numbers both for Q4 and for the full year. My first question is with respect to the overall growth that we had achieved during this year around 30%, first my question is with respect to related to this how the industry would have grown and within this how would have been the volume and value mix and thirdly if you can touch upon with respect to India how the growth has been relative to the smaller ticket size product the larger ones the persistent grew, how the growth has been in the individual products and also the end market category that is SME, MSME, infrastructure, last gain products for the X and PLI?

- Jairam Varadaraj:** Too many questions Ravi that I am not able to keep track on, I will try to answer whatever I remembered, so the first question is I am presuming your answering what is volume and what is price in our growth I would say these are approximate numbers because I keep changing region to region, product by product and a rough level 1/3rd price and 2/3rd would be volume, as far as the supply customers profiles are concerned I do not think there is anything unique except I can say that we were not working on any major projects, projects related businesses are very, very small percentage, so it was not a large capex projects that drove the revenue for the year that went by.
- Ravi Swaminathan:** Would we have gained market share in both domestic market and obviously the international markets?
- Jairam Varadaraj:** You can help me answer that question if you can go to Atlas Copco and Ingersoll Rand get their numbers then I can tell you whether we have increased, this is the problem, we are not able to get numbers, everybody gives false numbers to each other and they are merrily happy with each other on that count, so it is difficult to tell but intuitively you have to ask me that we gain, I would say yes marginally probably.
- Ravi Swaminathan:** Got it Sir and more granular with respect to the end demand drivers, so you told large project like Steel etc., we have not seen kind of demand from them, the growth seems to be driven by the smaller ticket size investments and what about the PLI, if you can give broad cost process over the next one year to two years for India at least?
- Jairam Varadaraj:** Well, PLIs we are already in touch with all the companies that we have been approved for PLI and we have already got a couple of orders and we have actually delivered to then as well but it is very, very early days, we will have to see how quickly the PLI schemes are rolled out and executed and invested because these are mashes amounts of capital that we are talking about in this PLI, so still too early to say.
- Ravi Swaminathan:** Got it and with respect to infrastructure project and also the water well and other regular projects, so any directional sense on how they are growing?
- Jairam Varadaraj:** Well the infrastructures in terms of road building and dam building and all that is still that for the strong year for us, construction and mining compresses thing but whatever looks like India suddenly has a lot of water and the farmers have a lot of water, so that has been almost dead market but it is unfortunate that this is the time that we launch one of the best product in the world for whatever, whoever bought it extremely happy but we will have to wait and see when the market survives.
- Ravi Swaminathan:** Okay, is it safe to assume that the company level be this year or the running FY2023 also there can be potential double digit volume growth at a company level, is it the kind of target that we are looking that is early teams kind of growth?

- Jairam Varadaraj:** If the reality matches my desire, yes but the problem is the crystal gazing ball is a little murky right now, I am not able to see clearly.
- Ravi Swaminathan:** Got it Sir. Thanks a lot. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Renjith from Mahindra Manulife Mutual Fund. Please go ahead.
- Renjith:** Congrats from good set of numbers given the scenario, so how much of the price hike on a ballpark which we would have taken so is there anything more which is left, or you feel that it is kind of adequate?
- Jairam Varadaraj:** Like I response to the earlier question, if you look at our 30%, I would say 10% is price and 20% is volume now and I also said in my narrative that we did not fully recover our cost during the year because of various challenges so obviously that 10% is not sufficient, we are working towards improving that, we will have to wait and see how the market responds to volume that is difficult to say that **performance**, so far the market seem to be okay and we have rolled out price increases in various segments of the market like I said announcement is not a price increase, price realization takes time because there are old orders that are executed, there are distributors who have quotations out whether it is a lag in implementation, so all that is why I said Q1 is good time to take stop of how things have happened.
- Renjith:** Okay and if the economy textiles have done extremely well, we have seen our one of the companies based out of Coimbatore with good numbers, so we are also one of the major suppliers there, so have you seen such kind of growth for textile and what percentage would be extended percentage of revenue?
- Jairam Varadaraj:** We have seen good growth in textiles but like I said what are the advantages of this business is we are not dependent on any one industry, so it is not just textiles that grew quite a few industry verticals grew and to the extent that textiles grew disproportionately we have also had some disproportionate contribution from that segment but I think is over I think textiles are now probably pulling back, so we will have to wait and see.
- Renjith:** What will be the percentage of section if you take number to that?
- Jairam Varadaraj:** I would prefer not to talk about industry contribution.
- Renjith:** Okay and actually if you look at textile compresses as such, will it be the market leader there in India?

- Jairam Varadaraj:** Again, it is very difficult to tell certainly a dominant player in textiles we could have differentiated dominant position in different regions of the country but if I have to take a consolidated it is very difficult to say.
- Renjith:** Okay and Sir if you can I can have my last question like how has been the other major segment geographical countries like Australia, US and Middle East which has a major significant highlight of performance in three?
- Jairam Varadaraj:** In my earlier narrative I told you that Australia was a challenging thing it had actually contributed negatively to our overall sales, so Australia as well as South East Asia, they were lower than the previous year, India I said there has been a good growth, Europe has been outstanding growth, Middle East has been also good but really if you look at contributors in terms of regions, if you take India at 50% on revenue and the rest of the world is 50%, 95% of that 50% comes from Australia, Europe and the US, so the rest of them are not significant.
- Renjith:** Okay and this interest rate increased in US, is that going to give an impact or we are too small to get impacted by these things?
- Jairam Varadaraj:** Our debt levels are not very significant, so I do not see that it is the major impact, by the key has a cost for the company but in terms of the macroeconomic impact is you have to wait and see what happens.
- Renjith:** Okay Sir. Thanks.
- Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.
- Bhavin Vithlani:** Thank you for the opportunity and congratulations for good numbers. First question is on your comment that you mentioned that at an organization we have grown significantly but we now need to invest significantly to processes, if you could just elaborate on this please?
- Jairam Varadaraj:** When you look at the multiplicity of entities and the scale and I mean the quantity of transactions that have gone up are accounting systems or accounting standards or accounting the hardware, IT systems all that need to get upgraded to reflect the new size, so we cannot be you know whether it is monthly completion of P&L or whether it is a quarterly completion, there is a certain amount of consolidation that has to happen and that consolidation gets complicated as the scale goes up, now you can put more warm bodies into the current system and completed or you go and revisit the system to make the processes more efficient, so that is really what we are trying to do now in terms of setting one by one we will take probably North America as reference because they were largest and try and see if we can learn and put template processes across.

Bhavin Vithlani: Appreciated. The second question is if you could just comment on the user industries in India specifically so you mentioned textile seems to be over but if you could just comment on some of the key end users such as automotive, construction in general exceptional?

Jairam Varadaraj: If you look at our performance in India, it shut across pretty much all industry verticals, sometimes in a normal year any other layer in certain times of the year, certain types of seasonal industries will contribute like for instance the Food Industry sometimes in October, November, December period but all that was not there I mean it was growth across the board, across all industries, across all the months, so textiles I am saying now because the cotton prices have gone and I am talking textile from the perspective of the Spinning Industry not the whole value chain, cotton prices have gone to such a level, it does not make sense for people to be buying yarn and converting it into fabric or anything else especially when you have a large export market and many of them are contractual, it is difficult so that is a bit of a pause, we will have to see how they mitigate and manage this.

Bhavin Vithlani: Sure, appreciated and on the Automotive Industry it was that has been pretty significant industry?

Jairam Varadaraj: Automotive, you know what is surprising for us is they are not able to deliver vehicles because they do not have chips I mean enough semiconductor products what they have taken footing to their machine but the segments of them has continued to invest, so it is not just automotive and also automotive ancillaries we are looking at automotive service equipment investments so that has been strong, so we will have to wait and see when they kind of throttle back.

Bhavin Vithlani: And would it be fair to say this is roughly a third of our end user industry?

Jairam Varadaraj: Which, automotive?

Bhavin Vithlani: Automotive plus auto ancillary.

Jairam Varadaraj: No, not at all.

Bhavin Vithlani: Okay, the other part is if you could help us on the Europe where are we in terms of our revenue size currently in terms of in the cash burn that we have been doing and how do you see the next 12 months given the uncertainties around the geography?

Jairam Varadaraj: I do not want to talk about the size of our revenue because that will be too competitive and information Bhavin, so as far as our projected what we have projected as the cash burn, we are far below that in terms of our accumulated losses are concerned. Our revenues are far higher than what we had planned, so if you remember we announced this plan about three years ago with a statement that at the end of the fifth year, the losses will stop then in sixth year we will breakeven probably have a surplus, so we are well along the way to us making that happen and as far as uncertainties of the war, when the war started, there was just like COVID when COVID

happened there were all these dooms day predictions that this is going to go down, there is going to be a problem even we went into it, we looked at whether it is going to be a u-shape recovery or V-shape recovery, we did various types of scenarios but much to a surprise the entire COVID impact was created by lockdowns rather than people's behavior right a minute, lockdown were lifted people went back to conducting their lives, conducting business as normal and the same thing we have seen in the Ukraine war I mean initially it started with a lot of concern may be blown out of proportion by the press but people are going about conducting business living their lives in Europe in spite of this crisis, it is not affected, so after the initial concern I think it is right down.

Bhavin Vithlani: Sure, just last question from my side, in US North America, is it fair to say that the portable compressors which go for the construction that is significant part of our business... for US and North America is it fair to assume that if portable compressor which you go into the construction activity or significant proportion of our business and that as US steps up on the infrastructure investment this segment of the market can do exceedingly well?

Jairam Varadaraj: It is not a significant part of our total revenue but it is one of the businesses that has grown very strongly and you are right with the greater emphasis of the US the government to put money that earlier had putting money into the hands of citizens, they are now putting money into infrastructure will certainly help us because anything that is spent on infrastructure has tickle down impact and it takes time.

Bhavin Vithlani: Understood, sure. Thank you so much for taking my question and best wishes.

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

Shyam Garg: Congratulations for a good set of numbers. My first question pertains to what is the provide capacity for production of compressors and what are our capex plans and my second is what would be the impact of inflation on our business, what can be the possible impact and the third question is which factor is giving us the most order and what are the current bookings here for the next year?

Jairam Varadaraj: The first question on capex, thank you for taking it up, this is one of the points that I wanted to cover in my normal narration which I do. We have invested about Rs. 35 Crores as in our capex during the year and that a large portion of it is for a step-up increase in some of our machine incapability's, so there is nothing like one big chunk is significant thing except for this. We have done that, to address your question about capacity we have enough capacity, what we do as a company we invest one year ahead of our planned growth in our strategic business plan we have an aspiration driven trajectory of growth and we invest one year ahead, so we are quite comfortable in terms of our capacity so there is no real constraint of course we had issues that seem like capacities constraint when there was a sudden demand for oxygen compressors that had to be delivered yesterday at that time you cannot do any planning for those kinds of

scenarios. We were able to respond to that by requesting some of our customers to defer their delivery in the larger interest of the nation which they did and it was an outstanding gesture that we got from many of our customers, so capacity is not an issue. Your second question was, I forget the second question. What was your second question?

Shyam Garg: What will be the possible impact of inflation on Elgi's business?

Jairam Varadaraj: That is a million-dollar question. We think that if inflation peculates down into commodities and into wholesale and retail price indices then it is going to touch every aspect of our cost, so it will definitely touch us like any other company, I do not think we are unique in terms of the being insulated from it. And the last question in terms of industry verticals, like I said there is no one industry that is dominant for us we supply pretty much across all industry verticals.

Shyam Garg: Sir what is your order booking for this year FY2022 to FY2023?

Jairam Varadaraj: We are not a order book based company, we are more of a book and bill company so, for us order book is not a relevant measure at all because we do not do projects.

Shyam Garg: Okay, thank you Sir.

Moderator: Thank you. The next question is from the line of Rohit from Samatva Investments. Please go ahead.

Rohit: Good evening and thank you for the opportunity. I just have one question, I just wanted to know that how is the demand being for the rotary screw compressors and the reciprocating compressors in FY 2022 and what is your outlook for FY2023?

Jairam Varadaraj: That is tough question to ask because rotary compressor is a category within that there are so many multiplicities of products, so difficult to say what is rotary and it is pretty much the dominant portion of our business. Rotary compressors are used across the board and all the industries both lubricated oil freed, different compressors are the small like duty intermittent applications that are used by smaller industries, garages and supplies that.

Rohit: Thank you so much.

Moderator: Thank you. The next question is from the line of Ritwik from One-Up Financial Consultants. Please go ahead.

Ritwik: Good evening sir, congratulations on a great set of numbers for the year. Sir, just one question from my end on gross margins, a year ago when our gross margins were 45 to 46% at that time our target was to reach around 48% with price hike, so in Q4 we have reached this level and you have mentioned in the opening remarks that we have taken another price hike in Q4 which will

percolate in Q1 and Q2. With some spike in raw materials in Q4 as well would it be a fair understanding that for the FY2023 year we would be around 48% gross margins if the commodity prices do not spike now?

Jairam Varadaraj: First of all, I do not know where you picked up this number 48% because I do not recollect talking about 48%. What we were trying to say is that we want to move our contribution margins at a material cost level down to what it was in 1920 that was our goal and there was a gap that resulted in 2021 in relation to 1920 and therefore in 2021 – 2022 our aspiration was to move bit back to that level which we did not, we failed to because the volatility was very high and as much as we tried to keep increasing we were falling behind. Now, would we reach 1920 levels in 2022-2023, I hope so but it is too early to tell we will calibrate our position end of the first quarter we will look at it we will also know what is the extent of volatility. Volatility is anywhere like it was in 2021 – 2022 it is a very difficult situation to manage, so we will fall behind.

Ritwik: Okay, that was it from my side. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Eshit Sheth from Anvil Wealth Management. Please go ahead.

Eshit Sheth: Good evening, sir. Thank you for taking my question and congratulations on a good set of numbers. My question was on employee cost, what is the general level of inflation we should understand as you eluded in your opening remarks because of COVID there were lesser increments rolled out. So, if you look at our two compositions India and Europe and USA primarily, what is the kind of increment should we assume over the next two-three years like for example in India we assume a 7-8% kind of increment except for head count addition and for Europe and US would be somewhere closer to 3-4%?

Jairam Varadaraj: Again, I wish I knew about how inflation converts to industry practice and market benchmarks. Today, when you look at India I wish it was 7 to 8% I mean you look every report that is coming out whether Chase or Mercer or Huein they are looking at increases in the neighborhood of 11 to 12%. So, if we really want to hold on to some of our key talent this is something that we need to be sensitive. Obviously, this is something that we need to work hard on we have not finalized any of this it will take some time. As far as US and Europe is concerned under the normal circumstances it used to be anywhere between 1 to 2.5% but when inflation kicking in there and many of these countries there are minimum inflations you have to pay a certain minimum by law. So, we need to take those things into account and figure it out, it is very fluid right now we will have to see what happens.

Eshit Sheth: Got it, and the second question that I had was on your oil free compressors, since the launch of the AB series that we had a year and a half back, how is the response been and could you give us some sense of whether that mix has tilted in favor of oil free compressors over the last couple of quarter or over the last one and a half year?

Jairam Varadaraj: Let me give you an answer from the perspective of India and then give you a sense for outside. It is not just AB, AB is one addition to our oil free portfolio and oil free is our strategic segment and we continue run an initiative in India and the results have very good in terms of gain share of the market. Now, I do not want to talk about specific numbers because it is too sensitive an information. What has happened with AB is that AB does not compete directly with our standard oil free mix. AB has the ability to go at a much lower capacity as well as a far better life cycle count than what is available in the market. So, we have been able to gain entry into certain applications that we are using earlier distant compressors of a smaller capacity. They were not using oil free screw compressor because it was too expensive, so a lot of entry into segment that we would have otherwise not been opened up. So, this AB what we have basically done is expanded the size to oil free in India that is a very positive. Now, as far as traction for AB we are seeing some very, very strong traction for AB outside the country too till early days but we are quite positive about it.

Eshit Sheth: Okay, and in terms of the mix change you have any sense on how the mix would be in terms, I know oil free is still small, but have you seen some addition to the share of oil free as a total percentage of our overall compressor category?

Jairam Varadaraj: Yes, by virtue of growth oil free is contributing a bigger percentage but in relation to the overall size of the oil lubricated business it is not something that moves with needle by a big amount.

Eshit Sheth: Okay, and would you share a number on that?

Jairam Varadaraj: I prefer not to.

Eshit Sheth: Okay, thank you so much.

Moderator: Thank you. The next question is from the line of Krishna Kumar from Loin Hill Capital Private Limited. Please go ahead.

Krishna Kumar: Good evening Dr. Jairam. Congratulations for a great performance that you did. Could you talk a little bit about what is happening on business opportunity, the railways and different, we hear a lot of trending and a few projects there, so could you share some thoughts on next two-three years outlook on the front if you can?

Jairam Varadaraj: There are two segments in railways, one is the intercity railway which is run by the government but is run by Indian Railways and there is a metro segment. Now, our presence in primarily in the intercity Indian Railways, that is grown but is nothing significant nothing to write of about, normal stuff. The metro because a lot of cities have opened up and they are wanting to implement metro, the metro growth or at least the requirements are look very big but we are not homologation for metro because most of these electrical multiple units that go into metro are coming from either Europe or Korea or Japan and our compressors are not homologation into

them. So, where was it is an international business development initiative, is it a strategic priority for us at the moment no, because it will take a lot of effort to go and get these compressors homologation. We are looking at other opportunities in the metro in India without this major business development.

Krishna Kumar: On the Defense perspective is there anything increment in?

Jairam Varadaraj: No, we do not play in the Defense at all.

Krishna Kumar: Okay, sir lastly in terms of broadening the management and succession planning from a longer-term perspective could you share some thoughts how the organization being to take care of the next decade?

Jairam Varadaraj: We are working on certain plans it is little too early for me to talk about it and hoping by either the end of the second quarter or the third quarter we will be able to make forward definitive statements about what we are planning to do.

Krishna Kumar: Okay, and lastly in terms of acquisitions lot are indicated integrated many of them but is there anything incremental stuck in acquisitions in any technology or other related areas that you would look at or is that something not on the front line?

Jairam Varadaraj: At the moment we do not have. Our main acquisition focused strategically is to acquire companies that give us access to customers but our inorganic matters to access customers is the last priority. Our first priority is to work through independent distributors if not that we create joint ventures with people who are knowledgeable which we have done, we have done five joint ventures in the US. If all else these opportunities are not available and that region is a strategic region in terms of size then we look inorganic and that too inorganic is not something that we have full control over whoever we want to buy should be ready to sell, so it is not a very deliberate strategy that we can work out.

Krishna Kumar: Thank you, Sir. Thank you very much and wish you all the best.

Moderator: Thank you. The next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: Thank you very much for the opportunity. I had only one question, on the sales front in Q4 we have done sales almost Rs.7.3 billion, now this is much, much higher than the quarterly average is that we were doing in the recent time and that too when the oxygen business was not driven at all in the fourth quarter. Could you explain a bit as to what drove this and do you think whether this particular run rate is the new normal?

Jairam Varadaraj: The growth in our fourth quarter run rate is about 20% higher than Q3, so if you look at sequential quarter Q4 is 20% higher than Q3. Typically, Q4 has a higher percentage run rate compared to Q3 so that some part of the increase in Q4 is that natural phenomenon that happens, that everybody runs at the end to buy machines, for depreciations, whatever purpose and you should not really compare with Q4 of last because last year was a bit of a negative. You look at Q3 which is more of a steady state compared to that we have grown by about 20%. Now, Q4 phenomenon itself probably contributed to 10% or 15% of that normal kind of a bit less from Q3 to Q4. So, we have another probably 10%, I think that is a function of 2021 – 2022 the year itself because there was a lot of tail wind in the year. Now, if Q4 going to be a normal for a quarter in the coming year, absolutely not, it will not be but will Q3 be a normal probably.

Harshit Patel: Okay, well understood sir. Thank you very much for taking my question.

Moderator: Thank you. The next question is from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: I have two questions, one what we have seen geo-political standpoint in terms of re-alignments etc, any of these have indications on the business whether positively or directly and the second question is I heard you articulate in the few concerns of run why things maybe a little more difficult from a margin standpoint over the next twelve months. I wanted to understand are there any concerns outside, offside concerns or there something else that you are worried about?

Jairam Varadaraj: To answer your first question geo-political polarization I do not think it is going to affect us, the polarization with respect to India and China now getting polarized is not a big impact for us because we do not do business we did through from China, so that is an impact for us. Our sourcing from China is not significant, so that is not an impact for us. As far as polarization in the west and Russia it does not impact us, we do not do business in Russia nor do we import from Russia, so we are pretty insulated from those impacts and we are leaning more towards business in Europe and America and there, there are no politically driven kind of fractures that would emerge between Europe and India or India and the US, so I do not see a problem there. As far as challenges are concerned, challenges basically two things, one is the head win that we should expect and the continued volatility in material cost these are going to be the challenges that we have.

Jeetu Panjabi: Okay, superb. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Thank you for the follow up opportunity. Globally both Atlas Copco and Ingersoll Rand have announced exit from Russia and Russia contributes between 2 to 4% of the global revenues. It seems like there is void in Russia and do you believe this is an opportunity for company like us?

Jairam Varadaraj: Bhavin, we built our global strategy 2016 where we very clearly articulated where we are going play in terms of geographies and products and we have been very deliberate about focusing our resources in that. Now, distraction from this could dislocate our move in that direction because when you have unlimited resources or actually pretend to have unlimited resources you can have all these adventures that look attractive in the short-term. So, while on paper there could be a vacuum in Russia that is compelling enough for us to prioritize Russia as a strategic market.

Bhavin Vithlani: Sure, fair enough. The second question is on the services business, so three questions here. One what is the share of services as a portion of the standalone business, second what could be our wallet share within our own installed base and third is many of the companies are now actually going for lot of IOT and putting in chips in the product so that it becomes very difficult for any third party to service so that they increase their own wallet share within the install ways, if you could just elaborate on these, please?

Jairam Varadaraj: If you look at our aftermarket, it is not service it depends on, it is after market in some countries our definition of aftermarket only step out, in some countries our definition of aftermarket is parts and service and in some entities service is a big chunk of our business so, that is one kind of clarification. As far as India is concerned bulk of our business is spare parts not service there is a certain small portion of service for specialized compressors and for certain category of customers. I would say that after market there is a proportion of our India businesses would be close to a 28% - 30%. What is our share of the installed base of the Elgi machines that is tough one, but I am going to venture the guess, it is probably around 50 to 60% there is an opportunity for us to improve that. As far as globally our revenue would be about 15% of our total revenue would be in the aftermarket. There is first you need to build that installed base and then you get the parts and service that revenue from it so, internationally the goal is to create that installation.

Bhavin Vithlani: Sure, thanks this is very helpful. Sir, last question is can you give us an update on the motor's capex. In the previous call you had mentioned about delay in some of the critical machines where are we in that journey and how are we dealing in the interim?

Jairam Varadaraj: Production of motors output is as per plan. The method of doing that production is not as per our plan. So, is we had ordered an automatic machine which means that we would have had very few people producing motors so, the alternate to that because of the delayed by the supplier and we had to invoke a bank guarantee and we have to stop that. We are employing more people to get the output up. Now, in the meantime we have finalized the alternate vendor, so orders have gone up and we will be hopefully in this calendar year we will have the machine and hopefully in this financial year we would have stabilized the whole thing.

Bhavin Vithlani: Sure, that is very helpful. Thank you so much for taking my questions.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for closing comments.

Jairam Varadaraj: Thank you so much. Thank you everyone for your patience and your interesting questions I hope our responses were sufficiently best took care of your curiosity. Thank you again Kamlesh for organizing this. Thank you.

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