ELGi

November 16, 2021

National Stock Exchange of India Ltd.
Exchange Plaza,
C-1, Block G Bandra Kurla Complex
Bandra (E) Mumbai - 400 051

Scrip Code : ELGIEQUIP

Through : NEAPS

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001

Scrip Code : 522074

Through : BSE Listing Centre

Dear Sir/Madam,

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

In continuation to our letter dated November 2, 2021 regarding intimation of Q2 FY2021-22 Earnings conference call, please find enclosed the transcript of the analyst conference call held on November 12, 2021.

This is for your information and records.

The aforesaid information is also being made available on the Company's website viz., www.elgi.com.

Yours faithfully,

For Elgi Equipments Limited

S Prakash
Company Secretary

Encl.: a/a

“Elgi Equipments
Q2 FY2022 Earnings Conference Call”

November 12, 2021

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

MANAGEMENT: **MR. JAIRAM VARADARAJ - MANAGING DIRECTOR – ELGI EQUIPMENTS**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022 Earnings Conference Call of Elgi Equipments hosted by Asian Market Securities Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. Actual results 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. Thank you and over to you Sir!

Kamlesh Kotak: Thanks Jacob. Good evening everyone. On behalf of Asian Markets, we welcome you all to the Q2 FY2022 earnings conference call of Elgi Equipments Limited. We have with us today Mr. Jairam Varadaraj, Managing Director of the company. I request Mr. Jairam to take us through an overview of the quarterly and half yearly results 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, it is my pleasure to be with you this evening and I thank you for the time that you have taken to be with us. I hope that all of you and your families are safe and well and continue to and I wish that we continue to remain so. First of all I would like to apologize for a delayed presentation of our analyst call. We normally do it the day after but there were other board commitments that kind of kept me away from it, but we will make sure that next time onwards that we do this call the day after the board meeting, so I apologize. So as is our normal practice, I will look at the numbers and try to give you an explanation or a reconciliation with the quarter for this year compared to the quarter of the previous year.

As you can see we had a significant growth in the topline from 480 Crores we did 652 Crores, a pretty impressive growth. I will come back and talk about the constituents of it. However, the profitability was not as good as it should have been. We lost close to about 3.5% on contribution because our raw material cost increases and this is something that was a big challenge for us. As you may know, all the commodity prices started escalating from December of 2020 onwards and they started becoming quite frequent and violent starting from March and every time we tried to respond with a price increase, the next week or the week later there was another cost increase, so it is just in a B2B capital goods business it is very difficult to have a highly responsive and agile price response to cost increases, so there is normally a quarter lag in most cases not only in India, but also all over the world. So we have done close to four to five price increases since December of last year, but we were constantly only catching up, we were not getting ahead of the game and that had a significant impact in this quarter. That combined with phenomenal I mean it is unprecedented like if there was any of ever a president of freight costs not only internal freight but also more importantly ocean freight combined with lack of containers, delayed shipments so it was chaotic and as far as shipping is concerned, it continues to remain chaotic, but commodity prices seem to have taken a pause. We are keeping our fingers crossed but we are also looking at agile models by which we can be responsive so I expect that the next quarter will be better, we will come back and talk about. So that was a significant impact on our profitability in this quarter compared to last year's same quarter. When you look at profitability between these two periods, last year we had close to about Rs.8 odd Crores as a subsidy from Australia and US, which was not there this year. If you can remember, we qualified for the paycheck protection program in the U.S and the job keepers program in Australia all told I think we have got close to about $3 million as a contribution, that is zero this year. So that has been an impact this quarter as well and of course normal increase in fixed cost for instance contract labor which is clubbed into the fixed cost surely by virtue of volume, I mean we have more activity so the security, our canteen, material movement all this had to be beefed up so that is part of the increase. So nothing alarming there it is normal thing and of course we had to increase salaries because we had frozen salaries for almost a year so these are the reasons, but overall even deducting for all of these the profit numbers are better than a year, but profitability could have been a far better than what it actually is I mean so this is really on the reconciliation of our Q2 performance compared to last year. So stepping back, if I look at the business, as always I will start from Australia.

Australia was a big challenge for us if you remember last year Australia was one of our small champion which really delivered very strong numbers, continued to deliver even through the COVID period, but this year around they had multiple lockdowns in Melbourne and Sydney that had a significant impact over and above that we also had a big project order that got deferred by virtue of all these circumstances so that is something that impacted our revenue performance in Australia not only this quarter but the prior quarter as well. South East Asia all of all those countries had serious COVID challenges and the economic activities were quite low so they in any case these countries contribute a very small percentage to our revenue but nevertheless there was an impact there and coming to the hero of the day India, it has been a phenomenal performance for us across all product verticals. Over and above it is not driven by a lot of people think that this performance has been driven by oxygen, compressor supplied for oxygen, generators that is not the case, yes we did have some business with oxygen generators in the second quarter just like we had in the first quarter, nothing exceptional, but the real performance, the results of India actually has come from very strong economic activity as well as our presence in the market in various segments so it has been a very positive run for us in India.

Moving on to Middle East, Middle East has done better than the previous year, but still not come out of the shadow of COVID. We continue to have a positive expectation for Middle East in the future. Europe has done very well both on the portable side as well as on the industrial side. As you know Europe is as strategic initiative for us. We committed to spending close to €20 million as a strategic investment through losses for building is an organic growth model that we are doing and it has done well. The growth has been far in excess of what we had planned and so that is a very positive contribution in the second quarter. US has done well, but the industrials had some serious challenges, availability of product, freight so there were some challenges but the order intake and the interest in the demand is still very strong so we are working very hard to overcome the shipping problems and product availability which I believe we will sort it out sooner than later. Brazil has been also a very strong player during this period, has done exceedingly well so all told if you look at it geographically, all of the markets except Australia have done exceedingly well.

Now the first question considering the kind of cost volatility and the corresponding price revisions that would have happened like I said we have done it four or five times what is really the growth from price and what is the growth from volume, so if you look at our India story and for the whole of the first half I do not want to talk about the quarter for the whole of the first half we have grown close to 85%. If you look at first half of this year compared to the first half of last year and prices of that only 8% is price and probably around a small percentage is O2. The bulk of the growth has come from actual volume so which is a very positive thing. Now if I look at internationally, outside of India most of the instances it has been volume growth because a lot of the price increases did not happen for bulk of the H1 it happened towards the end of H1 so you will see the results of it in the second half and the first half by and large international did not have major price increase, most of it has been volume growth so again it is a the quality of this growth has been good it is not an inflation driven growth that one would kind of expect. The other thing that I would like to focus on and give you a little bit of an update is on our Europe project. Like I said, we had planned to invest close to €20 million close to about Rs.200 Crores or Rs.170 Crores – Rs.180 Crores and we are continuing down that path. The losses are a lot lower than we had planned and the revenue is a lot higher than we had planned so on both sides we are doing well and the loss reduction obviously partly because of higher than planned revenue, but also because of lower than planned cost so the Europe project is going along nicely and it is a very strong kind of we were on a strong footing there and we will continue to focus and drive that.

As far as the mix is concerned if you look at just the compressor business I am taking ATS out. I will come and talk a little bit about the ATS business. The compressor business for the second quarter in the compressor business India contributed 55% as opposed to 50% in the first quarter and of course last year's second quarter was also roughly around 50% so India has contributed 5% more, but part of it is also not just India demand, a small part of it is because of that but the other thing is we prioritize the sale of compressors for oxygen generators and therefore India got a good share of the production capacity. Shipping delays, shipping dislocations affected many of the revenue bookings in markets like Europe and in the U.S. We have not lost orders or we do not have cancellation, but the fact is during this period we could not make the booking. So the reason I am highlighting that is to say that our strategic plan to build and grow the rest of the world business continues to remain very strongly on track in spite of a huge growth in India, so that is a clear indication of how strong and robust our presence in international markets are.

Coming to our capex, our plan was to spend about close to about 50 Crores, we will probably as of now the visibility is around Rs.35 Crores so nothing significant to talk about, there is no major impact here. If you look at the net debt position it is slightly worsened to the extent of about Rs.2 Crores compared to end of Q1 of this year and that is primarily because we had to build stock due to freight issues, freight delays we deliberately inflated our stocking of both raw material at the factory as well as finished goods in various locations, but this has smartly come down in October so I am expecting Q3 to be a very solid quarter as far as cash flow is concerned and we are generating month-on-month we are positive on our cash flow so which is a good thing. So our net debt right now it was Rs.93 Crores end of Q1 now we are at 95 Crores so nothing significant there. Looking forward into Q3 what we are seeing is the buoyancy, robustness, optimism that we saw in Q1 and Q2 is slightly diminishing. There is a bit of a dullness to the scene I would not press the panic button it is not that bad, but we can see certain perceptions of delays, shifting of finalization and all that marginal so we expect the topline probably for the second quarter to be lower to the extent of 5% to 10% of the topline of the second quarter, but we expect the profitability of the third quarter to be far better so the improved profitability margin levels should more than compensate for this marginal loss in topline that we are anticipating this is an anticipation we are not sure we are just looking at signals and providing a certain guidance. So this is really what I wanted to share with you and again thank you very much for the opportunity and I will be happy to answer your questions. Thank you.

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

Ravi Swaminathan: Hi good evening and congrats on a good set of numbers. Sir my first question is with respect to the demand you had mentioned that we are seeing robust demand in India so if you could touch upon the top three to five sectors which are driving the growth for this demand so basically if you look at a two-year first-half CAGR basis I mean we have grown at 30% just like over one year you have grown 80%. On two-year basis you would have grown 30% so assuming 8% to 10% of price hike so on absolute basis 20%, volume growth has been there over the two-year basis so if you could touch upon the sectors that are driving this?

Jairam Varadaraj: We have not seen any one sector that was spiking like it did during the first wave of the COVID where food and pharma where in the first quarter of that first wave. Food and pharma and chemicals were really going up one and subsequently it settled into a rhythm where just about every industry vertical was investing and we are continuing to see the same thing I cannot call out any one sector as standing out significantly from us.

Ravi Swaminathan: Okay and apart from this infra demand is also kind of robust or is it like on par?

Jairam Varadaraj: So like I said all our verticals are doing well so our construction, mining which is dependent on the infrastructure business has also done well so investments maybe made by the government on infrastructure projects obviously are trickling down in a lot of the contractors creating capacity.

Ravi Swaminathan: With respect to the oxygen concentrator how much of the revenue it would have been in Q2?

Jairam Varadaraj: I do not want to give specific numbers because eventually competitors are also listening in on this transcripts Ravi but I want to say it is not a very big number.

Ravi Swaminathan: Thanks a lot.

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

Bhavin Mitlani: Thank you for the opportunity and congratulations. I have a few questions so maybe to start with last quarter you had mentioned about the newer introduction of products and this is specially to bridge our gap, any update on that will be useful because you mentioned that is has taken market share for 7-8 years?

Jairam Varadaraj: I am sorry, I am not able to recollect the specific thing that you are talking about.

Bhavin Mitlani: Okay so I was actually talking about the water well drilling compressors?

Jairam Varadaraj: The response to our product has been outstanding right but the market has been very dull. It still has not picked up but whatever market is there right now, I would say if you looked at the on the OE sides these are the rig manufacturers who buy the compressor and send them out to Africa and that OE business we have close to 75%-80% of the market. We are very strong there. As far as individual drillers and contractors are concerned in India the market is very low but whatever is being sold we have close to now 30% market share from almost nothing right so we are growing nicely, but I would not break open the champagne yet because the numbers have not picked up yet.

Bhavin Mitlani: I appreciate it. Second is on the oil free in the analyst meet you had showcased a few new products how has been the response and what could be the growth in the oil free and our market share in that segment?

Jairam Varadaraj: The oil-free products that we have added this one is our water-injected product that we launched about two years ago or almost three years ago now got very good traction in India and we are beginning to see traction for these products for this particular technology happening all over the world right and we are beginning to sell reasonable quantities, you cannot compare it quantity wise to oil lubricated machine, but considering the market for oil free itself is significantly lower than then oil lubricated and the fact that we are such a late player in that market and the fact that Atlas has such a dominant presence the fact that we are beginning to sell these machines in pretty significant countries in Europe and in America, in Australia, and in South East Asia is a evidence of traction we are gaining there. Now the conventional oil-free machine yes again we are selling a little bit here in these markets but our big presence is in India we are growing our share, but I cannot tell you specifically what is the share that we are because unfortunately we do not know the market numbers we can only make estimates of what our share is.

Bhavin Mitlani: Appreciate that the other one was in the previous earnings call you had highlighted the moto factory had certain bottlenecks in terms of one large machine have we been able to resolve that and how are we doing?

Jairam Varadaraj: No so like I said in the last meeting when I brought this issue up I also said that we had set up processes where we can deliver the planned volumes irrespective of the availability of that machine right so which we have done very successfully we are doing close to about 300 motors a month out of that plant and it is operating significantly above breakeven and it is good and the quality, the performance in the market has been outstanding compared to the other two suppliers that we currently use for motors. Now on the machinery supplier we had to invoke their bank guarantee which we did in the second quarter and we have started the conversation with other vendors and we hope that the new machine for to replace I mean as a substitute machine should come into place by the second quarter of next year.

Bhavin Mitlani: Sure understood just last question from my side which is continuation of what Ravi asked, automotive is a significant contributor to the demand and that market is not doing as well so simultaneously infrastructure, road construction activity was not at a healthy point because COVID related disruptions were there and in light of that our performance that we see is exemplary so just want to understand if you could give more flavor of which are the sectors that are actually driven, is it textiles, is it cement, steel, so some color would be more useful?

Jairam Varadaraj: I do not have this the numbers but pertaining to specific industries in front of me Bhavin but like I told responded to Ravi that there is no one industry that kind of stands up in the limelight for us right where you are talking, automotive ancillaries tier 1, tier 2 and tier 3, we have supplied to them as well right so this transient kind of a challenge for the automotive industry because of chip availability has not really stopped the capacity build that people are talking about now when I ask around with various people in terms of what is really driving this kind of a growth because we are in the capital goods business and when customers buy a product it means they are increasing capacity so we wanted to understand what is driving, right, is there some expectation based investment which could be very dangerous because then it could be like the times in the past when there was expectation based investment and then it just tanked and it tanked very abruptly right but what we are hearing is that people are saying that for quite a few years capacity build up in this country was very sober right and as a consequence a lot of them are beginning to hit that 70%-80% utilization of the capacities and they are saying yes my existing capacity is coming to full utilization. Yes there is a positive outlook in the economy, yes COVID is going to become an epidemic and then it will go away and yes China plus one strategy which is already reflecting in buoyant demand for certain simpler industry verticals will start coming in and pervade into other industries and therefore we are looking at building capacity so this is happening across all it is not with respect to just one.

Bhavin Mitlani: Sure that is very helpful thank you so much.

Moderator: Thank you. The next question from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Thank you so much and congratulations for excellent number Sir it is quite interesting. It is like just looking at the standalone number so what we have seen is that the material cost on Y-o-Y basis has almost increased by 5% points, but your EBITDA margin is steady at 16% plus partly due to operating usage but would also like to know that has the revenue mix change also helped a lot in terms of higher after market and higher exports just trying to get a sense and what also it implies is that the price hikes which we have taken has been fully absorbed by the market so just want to get a color on this?

Jairam Varadaraj: So to answer the first question the mix change has not been significant Manish, the only thing that hit us badly was I mean and like I said the numbers are small like oxygen compressors. We had a contract to supply with DRDO supply to both L&T and Tata at a certain price and the steel prices went crazy in the middle of that contract right and there was no provision for us to go and ask for a revision in our price right so those are the kinds of sectoral things that impacted other than that other normal verticals there has been no big change in the structure right from last year's quarter to this year's quarter. The same thing I would say in terms of domestic sales and sales to subsidiary right I would say by and large it remains the same so it is not the structure related shifts that have caused this loss in margin it is purely because of we just did not pass on the thing fast enough right and we just could not right we did a price correction in one week. Next week there was another cost increase right so we went through that period it was a very volatile period so other than that I do not see it and as far as your second question, sorry I missed that.

Manish Goyal: It was just on the price hikes what we have taken?

Jairam Varadaraj: So if you look at our business we are not like the project business where we quote and it takes a long time to finalize and then we have get into a long execution cycle it is not like that. We are capital goods, but I would say low-grade capital goods where the cycles are pretty short so all the prices have been absorbed into the market there is absolutely no issue there right internationally there has been no problem.

Manish Goyal: Okay and are we looking for any further price hikes or like at the moment we going forward that the benefit of the full price hikes would get reflected in Q3?

Jairam Varadaraj: Well if there is not going to be any further commodity price increases, we have fully absorbed those and priced it into our products right so therefore we should see the recovery back to where we were before right, but if something violent were to happen then we will be back into the same ground.

Manish Goyal: Okay so ideally the sense is that with 15%-16% price hike what we have taken that we have not seen any demand destruction and we do not foresee any issue?

Jairam Varadaraj: We have seen the behavior of competitors it is not like we are the only ones doing it and we are watching the market as well right each competitor the timing is different because their inventory position and their contracts with their vendors are all very different right but you give it enough time two-three months and you will see everyone coming into the market with corrections and we see that right so it is not something that is unique to Elgi and it is not just unique to the compressibility right.

Manish Goyal: Sure and also like wanted to get a sense, are you probably seeing any competition intensity increasing from the domestic players as well as international players and are we able to maintain our market share?

Jairam Varadaraj: Our market share I would again like is a very difficult number to quote, we are growing share in Australia and in the US where numbers are published where there are even Europe does not publish numbers so but whereas in what in Europe we are starting so anything that we sell means we are gaining share in the market right. India I would say we do not have published numbers but I would venture to guess that we are gaining when I look at competitors growth again it is difficult because there are so many different products are agglomerated into their financial statements so we only have to guess based on our experience with a particular competitor brand in the market how often are we losing orders to them how often are we gaining orders from them these are all judgments that we use I would say we are probably marginally gained share, but our bigger challenge has been that with all these sudden growth and demand all over the world combined with the supply chain issues, with shipment issues our biggest problem was delivering. Delivery lead times just went up so because of that did customers like I know we know for a fact that there were other oxygen generator companies that came to us and they desperately wanted compressors not hundreds but I want three, I want five, I want eight. We were in no position to give it to them within that time frame because it was all time bound you had to make the generator relevant when the COVID was peaking right and obviously they bought it from others right so the lead times definitely we did lose some market, but I mean for lead times are bad for everyone but some of those guys who lucked out with stock right they gained right.

Manish Goyal: And Sir in your initial comment you did mention that in international markets the price hike happened in the end of the first half so was it…

Jairam Varadaraj: End of the second quarter.

Manish Goyal: So was it a deliberate attempt to delay the price hike or what could be the reason? Because what I see is that if I try to do some calculations that your international or subsidiary sales have probably grown only 10% Y-o-Y and your margins are impacted in the overseas subsidiary to some extent I know I cannot do the full calculations. but broadly so is my observation right here?

Jairam Varadaraj: Did we hesitate to increase prices, no we did increase prices in India if we did it five times, we did it three times there. I am talking now from December 2020 onwards. Now when you are a newcomer and you do too often then there is a certain fatigue that sets in right because we are unlike India where we are doing both direct sales as well as distribution sales in most of the other markets is 100% distribution, distributors you cannot fatigue them and they cannot handle a business where every month there is a price increase they cannot handle it so we had to be measured now when we looked at from end of March, April, May and June when steel prices just went crazy and they were going crazy week on week, we could not just react on a monthly basis we had to wait and see take a pause take a time and see understand what had to be done and when right so we took a holistic view and then said international we are going to do this so significant price increase happened in international markets as a percentage towards the end of the first half whereas India did multiple small percentages as and when things happen right.

Manish Goyal: And last question Sir on maybe a couple of more on the how do you see a trend on the project orders say from the large industries have we started seeing any pickup of demand from that segment?

Jairam Varadaraj: Yes there are things like cement projects have been being initiated so requirements are coming up there. We are not seeing anything yet in steel, but enquiries are beginning to happen. Power generation not yet, but I think that will also start coming, but if you look at our business Manish, compressors are the last thing they order because it has the lowest lead time so I know by virtue of being present involved in other businesses that have a 15 month 24 month-30 month lead on projects, there is a certain robustness in that pipeline and that will trickle down to us, but it would not happen and at the same time the timing will be different.

Manish Goyal: And last question on just housekeeping, in standalone other income what was the dividend income from the subsidiaries in Q2 and also a comparable number.

Jairam Varadaraj: I will defer that question to Jaikanthan, but I am guessing it is our ATS dividend.

Manish Goyal: I just wanted the number if you can check?

Jairam Varadaraj: I do not have the number in front of me, they have posted it on the group, it is 58.5 million.

Manish Goyal: Thank you so much Sir.

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

Harshit Patel: The first question would be Sir in the last call you had mentioned that you were in the final stage of rolling out comprehensive material cost reduction program which would target almost 2% of reduction as a percentage of sales and it would take almost 10 months so Sir where are we in this program and are we perfectly on track would we see some results in the first half of FY2023 Sir?

Jairam Varadaraj: Thank you so much that was there in my notes and it missed my attention. Thank you for bringing it to my attention. Yes we have kick-started the project, the project is exactly on schedule, a lot of opportunities have been identified. The teams have been formed and they are working full time, we expect to see some results in the fourth quarter, but a significant part of that savings completely baked into our P&L in the next financial year and your are right the target is 2% of the earlier consolidated sales of 2000 Crores so close to 40 Crores.

Harshit Patel: Sure Sir these additional incremental reduction in the material cost it would be over and above our guidance of 16% EBITDA margin by FY2026 right?

Jairam Varadaraj: This was partly to mitigate as a means to on the belief that we will not be able to pass on many of our cost increases that are happening, if you remember we started this project in the middle of chaotic raw material price increase right, now we believe that we cannot but now we have been able to pass it on because everybody is passing it, so this is going to the extent that we are not able to, right, marginally absorb it this is going to help us whether it is going to be over and above at 16% I cannot tell you that, but from a planning point of view this was on the assumption that we will not absorb, but we are absorbing, but will we fully absorbed these are things that I would like to wait for another couple of quarters before concluding.

Harshit Patel: Understood Sir my next question would be on employee cost so you had guided for almost Rs.475 Crores of employee cost for FY2022 so that would be a growth of 9% to 10% over the normalized number for FY2021 and it seems that we are pretty much on track so Sir what would be your guidance on the same for next year that is FY2023?

Jairam Varadaraj: Very early days, the attrition rate is beginning to climb. IT industries has gone berserk in terms of their compensation. We are watching this very, very carefully because the cost pressure on people is we are beginning to feel very strongly so I do not want to say anything now because there is too much volatility in the job market right now.

Harshit Patel: Now sure but we have done whatever head count increase we want to do in Europe right that is majorly done away with or there are still some people to add in our European business?

Jairam Varadaraj: It was to be done over a period of time, bulk of it has been done but marginal hiring will happen but it will more than make up the topline growth will more than make up.

Harshit Patel: Understood Sir my last question would be on the North American market so could you give us a flavor on all three businesses that we have over there first the independent business, second the JV's we have started establishing and third the patents and the Michigan Air who are our exclusive distributor so if you could give some flavor on how each of these businesses is tracking over there?

Jairam Varadaraj: So like I said the industrial business has not done as well and that is primarily because of availability of machine, the order book is very strong there so it is moving along but we see a lot of opportunity for a much larger performance from the industrial which will happen. As far as patents and Michigan Air are concerned they have all done better than the previous year and they are continuing to track very strongly, the US market is buoyant, but strategically have we done something that is deliberately discriminating and better, not yet. There are plans that are being rolled out for instance we have got a new leader at patents after a long search we have found somebody and he is going to drive that business in new direction that is going to give us that deliberate difference in performance. Same thing in Michigan Air, we are looking at incubating new territories which we have done so that will make a difference. As far as the joint ventures are concerned, they are primarily option that we chose when we could not find a distributor who will carry our product and support us in our growth right so they are like independent distributor we have incubated and we are supporting so all of them are doing as per our plan in fact most of them are ahead of the plan. We have now five joint ventures in the US and all of them are doing well.

Harshit Patel: Sure that was all from my side. Thank you very much for taking my question.

Moderator: Thank you. The next question is from the line of Nehal Parikh from Enam Holdings. Please go ahead.

Nehal Parikh: Congratulations on a great set of numbers so just wanted to check what would be the steel mix in our compressors like what would the cost contribute like just on a ballpark what would be the steel?

Jairam Varadaraj: It is a very difficult question for me to answer I will be quite happy to take it offline with you.

Nehal Parikh: Okay so the quest the reason that I am asking you this question is that steel prices in India and Asia are probably half the price in the US and obviously 50% lower than the price in Europe so would not this actually be a tailwind for us to price our products much higher because I do not think our competitors have facilities in India that can source steel at the prices that we can source it even though there have been increases and obviously I am not like at least in my last many years I have not seen this kind of distortion between pricing in Asia and Europe and the US?

Jairam Varadaraj: Just like-to-like when you look at, see we are not a very special, we do not consume special steels. We consume run out the mill, hot rolled and cold rolls carbon steel right so if when we look at it the price difference between Europe and America and Asia are not different, not significantly different and second when our competitors are sourcing finished products from China or from India right, they get the benefit of the local price right so arbitrage happens very quickly in a highly interconnected world right so there is no real disproportionate cost opportunity that we can play on.

Nehal Parikh: So just another question is for our competition what is the manufacturing where is it spread like even for Atlas, would it be spread all over or would it be dominantly for the U.S markets, Europe for the European markets and India for the Indian markets as well as the export market so just for the leaders.

Jairam Varadaraj: They are all over the place they both Rand and Atlas have a very strong manufacturing presence in China. So I would not say that they are high cost because they have access to extremely competitive cost of parts and even fully finished compressors even compressors for the Indian market come from China.

Nehal Parikh: Note it.

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

Bhavin Mitlani: Thank you for opportunity again. This question is so the acquisition of Rotair give us access to the portables and US has announced very large investment in hard infrastructure creation so are we seeing an opportunity that the access to portables which is a very competitively priced one can help us leap frog our market share aspirations in the United States?

Jairam Varadaraj: Bhavin If you remember at one time about I think a couple of years ago we acquired the US operation acquired the master distributor of Rotair in America and since then it has been a significant growth opportunity for the U.S operation, selling Rotair portables so we are already on that.

Bhavin Mitlani: But does the access to competitive price portables and the demand for large hard infrastructure will help us our aspirations in the US much faster than we think?

Jairam Varadaraj: How do you say low cost I mean if it is because we are supplying a lot of the parts for the Rotair portables, Atlas and Doosan and all of them have access to low-cost countries right so I do not think there is any cost at a component level arbitrage that is pretty significant but the fact that we make very good portables, very good products and we play with niche customers, has given us the ability to really grow the market I mean grow that business not the market.

Bhavin Mitlani: Sure I understand so the last question is again on India and we are seeing multiple other capital goods categories are highlighting that the unorganized segment is getting decimated and is that also helping us gain market share?

Jairam Varadaraj: Now can you help me understand that I did not understand?

Bhavin Mitlani: Are these small unorganized players getting decimated because of the disruptions due to COVID and non-availability of funds so categories like reserves which used to import from China, they are seeing disruption and consequently Indian manufacturers are gaining market share.

Jairam Varadaraj: Are you saying that small Chinese vendors going out and as a consequence Indian small vendors are growing is that your question?

Bhavin Mitlani: Indian small vendors getting impacted and the benefit of that market share expansion getting realized?

Jairam Varadaraj: I mean if you look at the reciprocating compressor which is where you have a lot of the small scale industry manufacturers making replica as of either the LG machine or Ingosol machine, they are continuing to grow. I think this whole thing of it is this COVID has impacted small businesses disproportionately I think it is a bit of a myth I do not think so yes there are that just like it is hit small company it has also hit a lot of large companies but has it been particularly bad for small I do not think so they have grown and many of the small companies are suppliers to medium and large companies so when the needle shifted they all came back so I do not see it at all in our business if there are a lot of small guys at the bottom of the pyramid and they are continuing to remain there. None of them have gone out of business if at all like I said because of all these supply issues that well organized guys had in terms of lead times I think some of them have got the confidence to invest and grow.

Bhavin Mitlani: That is very useful last thing I had asked this couple of quarters ago because you had a plan that for our foundry, we are also looking at third party orders so that we are able to fully utilize, any progress in that Sir?

Jairam Varadaraj: We did a lot of work on that Bhavin and a lot of the customers wanted machine castings and that is not something that we want to get distracted with right. What we have realized in the market is the demand for raw casting is very low most customers want the foundry to supply machine casting now we certainly do not want to invest any money in creating machining capacity for machining castings for others that is not our business and we do not want to tie up with outside machine shop company because that is another distraction from our business so we are still talking to a few people if they are interested in buying raw castings and they do all the work then we will do it but at the moment nothing of significance has happened there are some important stuff. There is nothing of significance when that happens I will come back and report.

Bhavin Mitlani: Thank you so much Sir. It was very useful and best wishes from us.

Moderator: Thank you. The next question from the line of Nakshita Mehta from Credent Asset Management Limited. Please go ahead.

Nakshita Mehta: Congratulations again for good set of numbers so I just had one question on the part of inventory so as I can see the inventories have increased and the standalone is not so can we attribute this revenue to the price increase more than the volume because we can see inventory is increasing?

Jairam Varadaraj: The inventory has gone up even in standalone because if the standalone books are the ones where the operations numbers are sitting the factory where there has been a significant increase in raw material and like I said we have increased our inventory both on raw material side as well as finished goods. Now the finished goods inventories have all increased in our subsidiaries because India business does not carry any inventory. The standalone number carries the inventory for the India business so it is not just finished goods that have gone up it is both raw material and finish good and bulk of it is in raw material that is on the standalone numbers. I do not know which standalone number you are referring to and saying it has not gone up.

Nakshita Mehta: No it has gone up it has definitely gone up. Standalone number is about 4357you're your standalone is 1900, so there was a major part from the subsidiary that is what I want to know?

Jairam Varadaraj: No that is bulk of it is raw material that is kept in this factory.

Nakshita Mehta: Correct all right also I just want to understand how is China plus one playing out so basically the chemicals demand has increased from India so are we also benefiting from that?

Jairam Varadaraj: We are not a component supplier or a raw material. We supply a finished product through a distributor to an end customer right so the China plus one strategy is for bulk buying let us say home textiles or fashion textiles or intermediate chemicals then there is a China plus one strategy where they look at possibly an Indian company filling those shoes but we are not in that in that segment of the business.

Nakshita Mehta: All right perfect. Thank you and good luck.

Moderator: Thank you. The next question is from the line of Shivam Prashar, an Individual Investor. Please go ahead.

Shivam Prashar: Congratulations like you mentioned that the demand is coming good from cement and power so would you like to mention any more sectors that you look at from where the demand can come like oil and gas or etc.,

Jairam Varadaraj: No I did not say the demand is coming good on cement and power I am seeing activity of capacity increase in all these they are looking at capacity increases in this sector and requirement from these industries come to us with a lag and we are still waiting on that lag. I do not have number but normally when they go to a company that sets up a power plant or a steel plant it takes about probably three and a half, four years is the lead time whereas our lead time is probably a few weeks so they tend to come to us very late.

Shivam Prashar: I would like to ask that like you are saying that the demand from compressors is turning out to be very good due to certain factors so like from which sectors are you seeing most of the orders or sales being happening from your end. Can you just specify the sector?

Jairam Varadaraj: Like this question was asked earlier and I said in India when we look at it just I cannot think of one sector that stands out as a big contributor literally every sector has grown. There is no one that is stands out.

Shivam Prashar: No can you just specify the sectors in which most of them like any percentage in which you go like a percentage breakup of the sectors you cater to?

Jairam Varadaraj: About 80% to 90% of any factory needs compressed air and we supply compressor right so it is not like our product is not generic to one industry type so if you look at compressed air, compressed air is a form of energy they normally call it the fourth utility right so any factory needs compressed air to run the factory right and unlike electricity which can be centrally generated and distributed, compressed air has to be generated onsite and that is why we have a demand for compressors so every factory will need a compressor.

Shivam Prashar: Okay Sir and do you see the compressor demand to be sustainable and long this time?

Jairam Varadaraj: I hope so because like I said we have all been looking for an answer as to why there is this resurgence in demand and the reason being given is that Indian industry has not built capacity over the last many years and as a consequence the capacity utilization is reaching that 60%-70%-80% the time when it triggers the thinking for increasing capacity and I hope that answer is right if it is then this can be such thing.

Shivam Prashar: Okay Sir. Thank you so much.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to management for closing comments.

Jairam Varadaraj: Thank you again for this time and taking your time off from your schedule to be with us. Yes we have got a good set of numbers but for us this is just a milestone we need to continue to go down the track of what we have set out to do which is to really build a company that is globally competitive profitable with good cash so thank you we are on that track and we hope to continue down that path. 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.