



November 10, 2022

National Stock Exchange of India Ltd.
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Bandra (E)
Mumbai - 400 051

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001

Through: Digital Exchange

Through: BSE Listing Centre

Dear Sir/Madam,

**Subject: Transcript of the analyst conference call - financial results for the quarter ended
September 30, 2022
Scrip Codes: NSE - ELGIEQUIP / BSE - 522074**

In continuation to our letter dated October 28, 2022, regarding Q2 FY 2022-23 Earnings conference call and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the analyst conference call held on Monday, November 7, 2022 at 5.00 P.M. for your information and records.

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

Thanking you,

Yours faithfully,

For Elgi Equipments Limited

S Prakash
Company Secretary
Encl.: a/a

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“ELGi Equipments Limited
Q2 FY2023 Earnings Conference Call”

November 07, 2022



ANALYST: **MR. KAMLESH KOTAK – ASIAN MARKETS SECURITIES LIMITED**

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

Moderator: Ladies and gentlemen, good day and welcome to the ELGi Equipments Q2 FY2023 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 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kamlesh Kotak from Asian Markets Securities Limited. Thank you and over to you Sir!

Kamlesh Kotak: Thanks, Inba. Good evening, everybody. On behalf of Asian Markets, we welcome you all to the Q2 FY2023 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 results and then we will begin the Q&A session. Over to you, sir. Thank you.

Jairam Varadaraj: Good evening, ladies and gentlemen. Thank you very much Kamlesh for hosting this call. Like we normally do, I will take you through firstly current quarter's performance with respect to in comparison to last year same quarter. I will give you a reconciliation of the EBITDA based on what it should have been and what it is. So if we look at the growth in sales and the improvement in the contribution margin at a material cost level, our EBITDA should have been around Rs.160 Crores instead it is about Rs.110 Crores, so there is close to a Rs.50 Crores difference between what it should have been and what it is.

The biggest two things are the fixed costs that have gone up. We have to keep in mind that fixed cost during the same period last year was extremely subdued and it was artificially subdued because of the COVID situation. So what we are seeing is basically the fixed costs coming back to normal levels, so nothing to be alarmed about. Considering the fact that we are sustaining our improved margins at the contribution level, so when I look at both employee cost and other fixed costs, there is no specific country or no specific event or incident that is causing it. It is just a

general increase across all and we should expect that it should be at these levels going forward because these are really the normal levels that have come back.

Now going to the sales, I will start like I normally do with Australia. Australia was better than last year, but that is not saying much because if you remember, Australia was particularly affected in fact Australia and Southeast Asia were particularly more affected by COVID than the rest of the world. So we are coming back. Our expectations are that it would be far better than what it actually is. It is the same situation with South East Asia in fact South East Asia is better than last year, but still not as good as Australia's recovery has been.

Coming to India. Again if you look at India, we had a very strong last year, first two quarters on the back of orders for compressors for oxygen requirement which is not there in this quarter, so we have grown compared to last year without the oxygen thing, so it has been good. Moving forward towards Europe. Europe has had good growth, continues to grow well in spite of the problems that we are having with the Ukraine war and the energy prices. We are continuing to grow. We are going as per our plan, the overall strategic plan that we have made for Europe. To put it in perspective, we are a very, very small player in a significantly large market, so we are continuing to grow there.

North America, particularly U.S., was very strong for us. We were able to, the entire team, the back-end team, the operations team did a fantastic job of making sure products were available. They were able to manage the supply chain challenges far better, I believe than the competition has, because our lead times now all over the world have become very competitive and almost, not almost, it is even better than pre-COVID levels, so this is a good thing and these kinds of things have helped us. Of course, it hit us on our cash flow in terms of inventory that we have to go through, but we are beginning to get that under control. So Brazil had a good performance as well and Middle East also doing well. So across the world, we have had good performance in all the geographies that we are participating in.

Our automotive equipment business also grew compared to last year, but last year, if you remember, the first quarter was almost a wash for the automotive equipment business. It did not have like the compressor business which had the oxygen compressor, automotive did not have a supplemental business and it was a really bad first quarter. So the second quarter was a recovery for it, so to that extent growing over a recovering quarter is a good thing, so they are also doing well. So overall across the board, we have done well both on topline as well as the bottomline.

Now looking forward into the quarter. During the last call, I had mentioned that we will have a good Q2, but we are not sure of Q3. Things seem to be okay for Q3 as well at least I am confident of the first two months, but I am not sure beyond November what could happen. We have got to keep in mind what happened with commodity prices in a very short period in the month of December in 2020. So the world has demonstrated that things can change quite rapidly, quite drastically, so we are keeping our fingers cross, so we still think that Q3 will be good, but we have to wait and see, so there is a bit of a caution on that. As far as our price realizations like I had explained to you in the previous quarter call, we had done some price correction. The problem that we had in 2021-2022 was the runaway costs. The costs were increasing on a weekly basis and pretty significantly and no amount of price correction we were able to catch up with that. So in February of this year, we decided even while the prices were still at very high levels, we decided we will forecast or anticipated cost and then we will set prices based on anticipated cost, which is what we did. We struggled through those price increases in the first quarter.

We started getting some traction and you can see the result of that in the second quarter. We expect that to continue, but in some areas, we may have to do some corrections and this is something that we are analyzing so that we remain competitive. We are not going to give away prices which are based on cost increases, but if there are cost increases that we have overestimated and to that extent, we need to correct prices, we will do so. So the idea is growth and that too profitably. So we will continue to manage that, watch that and do that well in the third quarter.

So coming back, like I mentioned, our ability to make products available was one of the competitive advantages that we had in the first two quarters and as a consequence of not being sure of shipping lead times, supply lead times, we have to take the worst case and plan our inventory basis that. So the consequence of that was that we had a huge increase in inventory to the extent of almost Rs.150 Crores, if I am not mistaken. So that increase is being progressively handled now in all the regions as well as in the manufacturing unit. We are scaling down our inventory to reflect the latest lead times and the latest shipment plans. So we think it could be a two to three months transition period before we start seeing the results of it at the inventory level, but cash flow, of course, should start improving even before that.

So as a consequence of all that as of Q2 end, our net closing debt was close to Rs.155 Crores when our closing debt in March was around Rs.90 Crores, so to that

extent, our debt has increased by Rs.65 Crores, only because of the inventory because our receivables are remaining flat in spite of growth in sales. So we are confident that this will come down. I am not able to predict exactly what the number would be at the end of the third quarter or at the end of the financial year, but it will be significantly lower than what it is now.

Coming to our capex. We had grand plans as always. We start with investing in machinery, but our total spend so far has been about Rs.25 Crores and we believe we will spend another probably Rs.25 Crores to Rs.30 Crores in the remaining year, so nothing significant there. We are working on a major capex plan to shift our city operations to our main campus outside the city. The detailing has been done, so once the numbers and the timings are ready, I will be able to share them with you. So this is really a summary of our quarter performance and cash flow. Thank you very much and we are happy to take your questions now. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question comes from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Congrats on a good set of numbers. My first question is with respect to the growth in the domestic market. So basically, we are looking at some 7% growth during this quarter. Adjusted for the last year's sale of oxygen concentrators, what would have been kind of growth, what would have been kind of volume growth and how do you see the domestic market panning out?

Jairam Varadaraj: The overall growth without the impact of O2 has been at a consolidated level close to 18% whereas with O2, what we have reported is about 12%, so the difference really has been the contribution from India without O2, so that is really the summary of it, Ravi.

Ravi Swaminathan: Okay. What would have been the volume growth, Sir, in this and your outlook on the growth for India going forward?

Jairam Varadaraj: The volume growth is about 8%. As far as India outlook is concerned, very difficult to say, there is a positive and a negative. The positive is that India is happening. It has been spoken about in all over the world. There is a China Plus One strategy. There is also the various schemes that the government is looking into localized businesses, so these are all positives that are there, but the negative, of course, is the overall world economic order. There are constant conversation of inflation, impending unemployment, recession, interest rates and the war. There is nothing

positive outside of India, so we need to look at what is the net-net impact of this so cannot make any conclusive statements on that.

Ravi Swaminathan: Got it, Sir and you have seen very good expansion in the gross margin especially at a standalone level and this is in spite of the fact that I think the input costs would have gone up during the second quarter or rather, the inventory would have been higher input cost. What is the reason behind this gross margin expansion?

Jairam Varadaraj: Like I explained, we did a price correction in February, March based on the anticipated cost increases, because we were not able to catch up with cost increases in the prior year. So that was the model that we took and we implemented it. There was a long gestation in different markets in terms of realizing it. There was old inventory that was there as well, so all that came into fruition in this quarter, so that is the result.

Ravi Swaminathan: Thanks a lot Sir.

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

Renjith Sivaram: A good set of numbers to start with. Sir, was there any positive impact of the currency? Because we have a lot of exports and rupee was depreciating, so what was the positive impact because of that?

Jairam Varadaraj: For us, currency was only a 1% impact, because you have to understand we have dollar on one side, we have also euro on the other side and we have significant presence in both these countries. So while the dollar was a favorable improvement, euro was an unfavorable improvement, unfavorable development, so net-net, we got only about 1%.

Renjith Sivaram: These price increases which you have taken, now that the raw materials have come down, our competition will also start to reduce prices, so what kind of price correction in our end products which we have to take in the next two to three months?

Jairam Varadaraj: We are still analyzing that Renjith. We need to figure out what is the current cost, we do not want to get into a situation where again volatile changes happen to raw materials and we again get left behind. We want to learn from the past, make sure that we have a detailed analytical view of the future basis that review our prices and see if there is a need for us to make changes.

- Renjith Sivaram:** Okay and Sir, just one thing, just my understanding point of view a bit, I have also visited a lot of this pick and carry machine kind of a facility, where there is a lot of impact, we are seeing a lot of capex happening, but I have not seen any ELGi compressor use to many of these chip manufacturing or SMT manufacturing facility it is largely some other imported or some other foreign brand, so do we have an offering or are we looking at that? Because that is going to be huge...
- Jairam Varadaraj:** Absolutely right, I do not know which factory you visited in India, because the PLI scheme for semiconductors, we know that very few factories have been converted into actual factories, the projects are on and in many of the projects we have got the orders.
- Renith Sivaram:** Okay, so we have an offering there?
- Jairam Varadaraj:** Of course and outside of India, some of the leading brands I cannot mention names because of confidentiality, some of the leading brands in semiconductors are our customers.
- Renjith Sivaram:** Okay, you have said ASM is one of the largest machine manufacturing here. So because of this German thing, does he have a tie-up with the German compressor and are we losing out on that or nothing like that exists?
- Jairam Varadaraj:** Sorry, I did not understand your question.
- Renjith Sivaram:** ASM is one of the largest machine manufacturing for chips, so because he is of German vintage, does he support mostly German compressors? Or is it like nothing kind of...
- Jairam Varadaraj:** I do not think so. Bosh is a customer of ours.
- Renith Sivaram:** Okay. So we do not see any major impact because of that?
- Jairam Varadaraj:** No.
- Renjith Sivaram:** Okay, that is great and Sir, this textile, we have seen kind of a slowdown or otherwise, you can at least give some perspective, like what will be the growth markets for the first half and the second half because we are seeing some slowdown in textiles, which used to be a big market for us.
- Jairam Varadaraj:** Textiles was never a big market for us. It was not disproportionately higher as I have maintained one of the benefits of this business is that it does not depend on
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any one industry vertical. It rides on all industries, but in a given year, there may be one or two industries by virtue of their own endemic problems, they may be struggling like textiles right now. It was steel a few years ago because of the COVID and demand was not there but again, steel came back with a vengeance, so those cyclical patterns exist in the industry, but we are not dependent on any one industry in any significant way. So textiles, yes, it is almost a year that they have been having challenges because of cotton prices, but now cotton prices have dropped. Mills are again back into the market buying cotton, so it should start up.

Renjith Sivaram: Okay and in terms of the end user industry, two, three industries which you can pick up which is actually giving a positive outlook?

Jairam Varadarai: I think all of them are talking about, if you look at our inquiry levels, it cuts across all industries. Question is, are they all going to convert into finalizing orders and when? That is the question, yes.

Renjith Sivaram: Okay Sir. Thanks and all the best.

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

Harshit Patel: Thank you very much for the opportunity Sir. You have mentioned that we are progressing as per our plan in the European expansion. So I think the plan was to breakeven in FY2024 and to start making money from FY2025 onwards. Sir, could you explain to us as to what were the losses that we have incurred so far in the first half of FY2023 and what should be the full year losses for us?

Jairam Varadaraj: Harshit, one of the things is, yes, the plan was FY2024 before COVID, but in COVID, we lost a year. So the breakeven actually happens in FY2025. So that is point number one. Point number two is I do not want to go into the specifics of losses in a given year. Our earlier plan was to invest Euro 20 million as mid through losses, right? So that is about Rs.160 Crores, so we are well below that. So that is all I would like to say. I do not want to go into the specifics of what it was in a given year. I would like to say that and then say whatever we are doing today is better than planned.

Harshit Patel: Understood and all the major hiring on the employees front on the sales, marketing and administration front in Europe, is that done already or we are still hiring over there? So I am trying to go as to how much increase would be there in our employee expenses going ahead.

- Jairam Varadaraj:** The bulk of it has been done. Any additional increase will be purely revenue-generating increase. So if there is an increase, unless there is an associated revenue that is justified by the cost of the person, it will not be done, so right now, we have covered all our basic overhead required for the plan already in place.
- Harshit Patel:** Understood. A second question is on the motors front. Sir, the last time you had mentioned that by the end of 2022, we will get that critical machine which is needed for the production and by the end of FY2023, so the March quarter, we will stabilize the production of motors. So where are we at that plan as of now?
- Jairam Varadaraj:** If you remember I had also mentioned in the same call that we had a problem with the vendor and we were talking to them, because they were delaying things and they were not meeting our specifications. Now what we have done in the meantime is revoked or invoked the bank guarantee that they had given for the advanced money that we have paid and we have canceled the order and we have gone with another vendor and we hope that the delivery of that machine will happen by the fourth quarter of this financial year and therefore next year, we will have full capacity for the plant.
- Harshit Patel:** Understood and Sir, just a last small clarification that 18% like-to-like growth that you mentioned excluding the oxygen compressors, so was that for our consolidated sales or just the India revenues?
- Jairam Varadaraj:** Consolidated.
- Harshit Patel:** Thank you very much Sir for taking my question.
- Moderator:** Thank you. We will take our next question from the line of Vinod Shastri from Instanomic Ventures. Please go ahead.
- Vinod Shastri:** Good evening Sir. Thanks for the opportunity and congratulations on the good numbers. Sir, my question would be on a standalone basis, we have made Rs.448 Crores and the PBT was around Rs.95 Crores and on a consolidated basis, we have made Rs.738 Crores and PBT was RS.104 Crores. Just wanted to know which business is underperforming, and when do we expect a turnaround in that business?
- Jairam Varadaraj:** I do not want to get into the specifics of each business. That would be too competitive information for me to share, but you know that Europe is the one that is losing money and that is a deliberate plan and that is the reason why the consolidated number does not move proportionate to the standalone number.
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- Vinod Shastri:** Sir, the follow-up question would be the operating profit margin for the quarter was somewhere around 15.2%, is there any scope of improvement or we are somewhere around the peak?
- Jairam Varadaraj:** At the current level of pricing, we are probably at the peak, but the idea of increasing the bottomline or the operating profit margin is through volume, not necessarily through margin.
- Vinod Shastri:** Okay. Then there was some capex that was done on the ELGi Sauer thing. Is the commencement has started or can you see any material impact towards that?
- Jairam Varadaraj:** No, we do not have any, ELGi Sauer, we have not made any investment into ELGi Sauer.
- Vinod Shastri:** There were some kind of capex for somewhere around Rs.50 Crores over there.
- Jairam Varadaraj:** But that is by the subsidiary company, it is not by the parent company. They are doing it on the sense of their own balance sheet.
- Vinod Shastri:** Okay. Then we just had news on the VRS scheme. How much the wage cost reduction is expected if that goes through successfully, Sir?
- Jairam Varadaraj:** This is a small number. I do not think there is anything significant. By law, we are supposed to get a resolution passed by the board whenever we do a VRS. We do this on an ongoing basis. If you see in the past few years, we keep doing it. This is primarily to assist employees who have challenges that prevent them from working, but at the same time, they are not so unwell that they cannot work, so we are trying to work that, too. So there is nothing significant that can be expected.
- Vinod Shastri:** The last question would be there is big capex that is going on into the railways team. Now do we see any big order flows that is coming into the company, Sir?
- Jairam Varadaraj:** Railways are going to make an investment, but unlike the past, where the locomotives were manufactured by government-owned companies, like Chittaranjan Locomotives or Diesel Locomotive Works, increasingly they are looking at private locomotives, to manufacture the high-capacity, high horsepower locomotives. We will be participating in these opportunities, but it is going to be a new landscape, completely different from the past, so it is difficult to say whether there will be a linear kind of growth for these kinds of opportunities, but they are there.
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- Vinod Shastri:** Thank for the opportunity Sir.
- Moderator:** Thank you. Our next question is from the line of Govindraj, an Individual Investor.
- Govindraj:** Congrats on a good set of numbers. My question is we are shifting these manufacturing units to outskirts of the city. Whether we will face any labor shortage because most of the laborers will be around Coimbatore.
- Jairam Varadaraj:** No, we are already running our factory there and we are having people there and we transport our people there, so it is not a problem.
- Govindraj:** We are shifting the factory to the outskirts whether there are any future plans for this city facility?
- Jairam Varadaraj:** No, we will utilize that for our automotive equipment business as well as other supply businesses that we have like pressure vessels and motors and all that.
- Govindraj:** Okay, so some parts of the units are getting shifted to outskirts Sir?
- Jairam Varadaraj:** The main production units will go there. These ancillary and supply units will probably remain here.
- Govindraj:** Okay, thank you. That is it from my end.
- Moderator:** Thank you. Our next question is from the line of Navin from NS Capital. Please go ahead.
- Navin:** Good evening Dr. Varadarajan. From your customer profile Sir, are you seeing any positive impact of the China Plus One, Europe Plus One and the Indian manufacturing resurgence schemes? Are we adding clients from niche areas in sectors which we have not seen in the past? Some commentary on those lines would be helpful, Sir. Thank you.
- Jairam Varadaraj:** We are not a component supplier nor do we white label for other manufacturers, so therefore, for us, this China Plus One strategy does not affect our business, because we are not competing with the Chinese companies for private labeling for others, so the China Plus One strategy really helps those companies who are sourcing points for the big consumers in Europe and the U.S., so we are not there. In terms of customers wanting to buy non-Chinese products either in India or in Europe or in America, we do not see anything. At the end of the day, business does not behave in a biased manner. Business behaves in a rational manner and if
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there is a Chinese company that is making good quality products and is able to give a good price, nobody is going to say, I do not want to buy Chinese and therefore I will not buy. You see a lot of Indian companies who buy a lot of Chinese products. In our own business, there are so many small Indian compressor companies that got incubated because of the huge demand for compressors for producing oxygen, none of the organized players could suddenly supply that quantity. There was a huge influx of Chinese compressors that were represented or branded in the names of Indian companies, small Indian companies. They made a huge amount of business during that time and now that the oxygen business is gone, they have to sustain their business through other means, so they are continuing to import from China and they are supplying to the industry, so industry is buying, so I do not think that China Plus One strategy is a good rhetoric and emotion at a certain political level. But at the economic level, it is a rational behavior.

Navin: Thank you Sir and on the operating front for this quarter, it has come north of 15%. How do you see this going forward, Sir? What would have to happen to take this a few notches up? Is it possible with the current product line or do you have to make investments and collaborations in R&D, etc?

Jairam Varadaraj: Our cost-to-price ratio is pretty much at a level of synchronized levels. Maybe there is some opportunity to review it, which is what I referred to in the earlier part of my conversation. In order for us to move margins, operating margins or EBITDA in any significant way, it has to come from the topline, which is really what we are trying to do through all our global expansion.

Navin: Thank you Sir and congrats again for you and your team on a good set of numbers.

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

Bhavin Vithlani: Congratulations for good numbers. When we look at standalone growth of about 8% and you mentioned, on a consolidated basis, the growth could have been 18% instead of 12%. But if you could help us, what could have been the growth in India had the oxygen concentrators not been there that is part one. Second, which are the end-user industries that we are seeing positive traction and maybe a couple of them where we are seeing a negative traction?

Jairam Varadaraj: Sorry. Can you repeat your second question, Bhavin?

Bhavin Vithlani: Ex of the oxygen demand and when you look at the end-user segment, where that we are seeing positive growth momentum and where are we seeing a negative growth momentum?

Jairam Varadaraj: Let me answer your second question first. We see positive growth across all industry verticals except probably textile and the reason for that is pretty obvious, so all the sectors have grown, but the question that we really need to ask ourselves is are all these sectors going to grow in the future. Now there is a certain tentativeness, where there are still inquiries that are coming through, but they all going to get converted in the same velocity as they used to get converted in the past, this is a question that we do not have a clear answer for, right, so we have to wait and see and watch this very carefully. To answer your first question, our volume growth was about 8% in India without oxygen. With oxygen is around is about 2% to 3%.

Bhavin Vithlani: That is helpful. The second part is you mentioned that we took some corrective pricing actions early part of the calendar year and when we look at the competitive positioning amongst the large players, what would be our pricing ladders? Historically, we have observed that there was a 7% to 10% differential versus Copco and maybe 1% or 2% versus an Ingersoll. Now how do we see as you have mentioned that we have moved ourselves significantly up on the quality curve and there is an acceptance towards our brand, so it will be useful to understand the pricing ladders?

Jairam Varadaraj: That is a million-dollar question. If I had an answer for that, then I will be at a different level. So if you ask our sales guys, they will say that we are far, far higher than Atlas and Ingersoll Rand, which is not true. But having done the price corrections and having tried to extract the pricing behavior of our competitors from their published reports, we believe that we have done a far more aggressive price correction than our competitors. I think our competitors were challenged by supply chain issues, which probably did not handle it as well as we did and probably because of supply chain challenges and long lead times, they have had to also be a little sluggish on their price correction. So this is still early days we have to wait and see. So to answer your question in the ladder, probably we have moved one or two rungs, but I cannot put a percentage on that. Are we higher than Atlas and higher than Ingersoll Rand? Definitely not. I think that is our sales guys' fantasy and imagination, that is something that we are not there, yes and let me tell you, even if our quality and I know our quality is far better than these competitors. I know our performance in many machines are far better than these competitors, but we are dealing with Indian customers who still like something that is foreign. We have not

shaken ourselves out of the colonial thoughts. We still have that complex. We will build it over a period of time.

Bhavin Vithlani: We understand that. Just the last question from my side is, you had given a target of 14.5%, 15% margins on a three, four year trajectory and you have achieved it maybe in a year's time now. Do you see further upsides to the trajectory that we had portrayed for a four, five year horizon?

Jairam Varadaraj: We had said 16% by 2025-2026 is what we had said and right now, we are at around 14.5% or something like that. Now like I said, this quarter has realized our prices and costs have not increased as we anticipated. So it is the time to review our position, because the priority is growth, profitable. Not profitable, flat performance, so we need to review that, so to answer your question, can we remain the same level of topline and achieve 16% that is a no and I would actively discourage that, because then you are just dropping up, you are extracting margins from the market, you are just milking it, you are not growing it. It is a good situation to be in but not a situation where you can celebrate and say, now we can keep extracting from the market.

Bhavin Vithlani: That is very helpful. Thank you so much for taking my questions.

Moderator: Thank you. Our next question is from the line of Manish Goyal, an Individual Investor.

Manish Goyal: Thank you so much. Sir, very hearty congratulations on crossing Rs.100 Crores PBT. Quite commendable, Sir. Couple of questions just probably on the gross margins again to probably get a better perspective, has the revenue mix change also like in terms of higher aftermarket sales or more exports from India and backward integration, what we have been doing gradually, also helping us very well in this quarter or probably we see this kind of revenue mix continue. If you can give that perspective, like how are aftermarkets doing? And in exports also, what I saw last year in the annual report is that exports from India, standalone was up 69% to Rs.421 Crores and it is now 17% of the revenue and it is driven by both sales to the subsidiaries and direct exports, I believe, so that is the first set of questions Sir.

Jairam Varadaraj: So let me try and answer what I have understood, Manish. You can correct me. Now let us talk backward integration. The backward integration, which we expected to contribute to the bottomline was the motor project. Now it has certainly contributed, but nowhere near the levels of significance that needs to get called out in this quarter's percentage for the simple reason, our motor production volumes are still quite low because of that machinery that we did not get. So this profitability

is not because of backward integration. Coming to mix, our aftermarket as a percentage of revenue has remained at the same level, maybe marginally it is grown. I would not say that is the main reason. So overall, I would say we have pushed through price increases across all products and across all geographies. It took us a little bit of time to make it stick in some products and make it stick in certain geographies and that is why it took us almost six months to get to where we are today, so this is my understanding of the question. Is there something that I missed?

Manish Goyal: No. That is what I was trying to say that. There has been some significant shift or move in the revenue mix, which would probably would have helped us on the better gross margins along with the price increases what we have taken?

Jairam Varadaraj: No, I would not attribute this to mix. It would be on our pricing.

Manish Goyal: And anyway the exports will continue to do well because our international subsidiaries are also doing well and....

Jairam Varadaraj: Yes.

Manish Goyal: Like in India, have we started seeing traction on the inquiries on the project side, which was quite subdued of late?

Jairam Varadaraj: It is all at the inquiry level. For instance, flue gas desulfurization, a lot of inquiries, steel mills are talking, they are talking now, they seem to be saying, wait a minute, let us wait and see. The same thing with cement. Cement started and now they are saying, let us wait and see.

Manish Goyal: Okay and a couple of data points like we have seen a jump in our other income. So I believe it is always like in Q2, we have dividend income from the subsidiary. So if you can share the number, what was the flow-through of dividend income in the quarter that would be helpful.

Jairam Varadaraj: There is no dividend income really in this quarter, Manish. The main thing other income is the exchange, exchange, mark-to-market kind of a thing.

Manish Goyal: And how much was that, Sir, roughly? Because even standalone has seen a jump, so I was just wondering that.

Jairam Varadaraj: The standalone is other income from subsidiaries.

- Manish Goyal:** Okay. So what was the forex gain, Sir?
- Jairam Varadaraj:** It is not a gain, it is just restatement of our receivables.
- Manish Goyal:** Okay, got it, Sir and last question. When we talking about Q3, so like probably last concall, we did mention about a bit uncertainty on the growth aspects. So now basically, we are saying that we probably continue to see the growth momentum what we have seen in the recent past. That is what we should infer, like when you said first two months seems to be quite okay? So when we say this, we are referring to the growth part?
- Jairam Varadaraj:** Yes, correct. First two months seem to be okay on the topline. I would not say they are better than Q2, but they are continuing down that path, but we will have to wait and see beyond Q3.
- Manish Goyal:** Great Sir. Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.
- Rahul Gajare:** Thanks for the opportunity. I got two questions. Now given the concerns in the European region with respect to manufacturing and energy costs, etc., is there a case for you to see more manufacturing happening in India and shifting to Europe for ultimately selling it, benefiting from labour arbitrage and also from Africa to India? That is the first question.
- Jairam Varadaraj:** You mean manufacturing for ELGi to be moving to India or you are saying generally European companies will move to India for manufacturing?
- Rahul Gajare:** There is a trend that we seem to be gathering. Given the energy cost and so on, there are more and more inquiries for manufacturing coming to India. So in case of ELGi, it could be essentially from the own subsidiaries and from ultimate clients also?
- Jairam Varadaraj:** Right now, our entire global markets are supplied out of our manufacturing in India. So we do not manufacture the industrial compressors anywhere else. We do manufacture portable compressors in our factory in Italy, but that is a very, very small operation. Now are European companies going to set up operations in India? I do not know. I do not see that big kind of exodus happening. We have to keep in mind that after the China sourcing experience for the whole world, every country just like India, is looking at in-sourcing manufacturing, so I believe the demand for
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our products in the U.S. is driven by investments by American companies to in-source manufacturing, so if everyone is behaving, all countries are behaving in a very protective manner, so is India. China Plus One strategy, like I said, is for sourcing points. We are not a sourcing company. We are not a source for anybody, but such of those businesses that are sources or other brands, they will definitely have a benefit.

Rahul Gajare: Okay. Sir, my second question is our total sales, particularly how much of this comes from orders from the new factory and how much would be existing demand? Is there a new, do you track this?

Jairam Varadaraj: We do track it, but I do not have the number in front of me.

Rahul Gajare: I can take that offline. Thank you very much.

Moderator: Thank you. Our next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Congratulations for great set of numbers. Sir, my question is what is our aftermarket revenue including service and spare as percentage of revenue last quarter and where we intend to take it in two, three years' time, Sir?

Jairam Varadaraj: Our service revenue is very small because we do not do service. Most of our service, at least in India, is done by our distributors. So for us, bulk of our aftermarket is just parts revenue. In total, at a global consolidated level, our aftermarket would be around 22%, 23% and in terms of for the next two to three years, I cannot predict where it is going to be. I can only say it is a strategic priority for us in all markets, not just in specific markets, but from an opportunity point of view, it could be as high as 35%.

Vipul Shah: Okay Sir, it must be a high margin business as compared to new compressor business, right, Sir?

Jairam Varadaraj: Yes.

Vipul Shah: Thank you Sir and all the best.

Moderator: Thank you. Our next question is from the line of Govindraj from an Individual Investor. Please go ahead.

Govindraj: Sir, how much is the exports in the quarter consolidated?

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- Jairam Varadaraj:** Sorry, I did not hear you.
- Govindraj:** How much is the export, Sir, during the quarter?
- Jairam Varadaraj:** Our business is done by our subsidiaries. Our international business hardly has any export. It goes all through our subsidiaries and subsidiaries sell, so we are not like other companies that do domestic and export.
- Govindraj:** Okay and the promoter stake is 31% to 32%, any increase in that sir?
- Jairam Varadaraj:** If you can give me some money, I will certainly take it.
- Govindraj:** Thanks.
- Moderator:** Thank you. Our next question is from the line of Manish Goyal, an Individual Investor. Please go ahead.
- Manish Goyal:** Sir, can you give us a breakup of revenue between international and domestic for the current quarter and a competitive number as well?
- Jairam Varadaraj:** Competitive?
- Manish Goyal:** No. Revenue breakup between international and domestic for the current quarter and the half year?
- Jairam Varadaraj:** They are roughly the same at around 40%, 42% India and the rest of it is the rest of the world. Roughly they are maintaining that same thing. Last year was about 55% domestic, 45% was the rest of the world.
- Manish Goyal:** Okay and for the half year also, it would be somewhat similar?
- Jairam Varadaraj:** Yes, same.
- Manish Goyal:** We are having a large outstanding borrowing on one side to the tune of Rs.600 Crores plus and on other side, large cash of Rs.450 Crores. So are we seeing some arbitrage, interest arbitrage benefit number one or there is an issue on the fungibility of cash utilization?
- Jairam Varadaraj:** If you look at the debt, it is primarily in the overseas subsidiaries, which is a bulk of it, big one is in Europe. The next big one is in the America and the third big one is Australia, so these are the three areas. The India business is generating cash and
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as a consequence, we are using packing credit, which we are getting at a very low rate of interest and we borrow that and put it into deposits as a means on a little bit of a margin there and keep it safe.

Manish Goyal: Okay.

Jairam Varadaraj: So there is a bit of an arbitrage in India.

Manish Goyal: Great Sir. Thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to the management for closing comments. Over to you, Sir.

Jairam Varadaraj: Thank you Inba. Thank you ladies and gentlemen. It was a pleasure to be with you this evening. We thank you for your continued support and your continued curiosity about our performance. So we look forward to talking to you at the end of the next quarter. Thank you very much.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Asian Markets Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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