August 16, 2022

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

Scrip Code : ELGIEQUIP

Through : Digital Platform

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001

Scrip Code : 522074

Through : BSE Listing Centre

Dear Sir/Madam,

Subject: Audio call recording link of the conference call - financial results for the quarter ended June 30, 2022

In continuation to our letter dated July 22, 2022 regarding intimation of Q4 FY 2021-22 Earnings conference call, please find enclosed the transcript of the analyst conference call held on August 12, 2022. The aforesaid information is also being made available on the Company's website viz.,www.elgi.com.

This is for your information and records.

Yours faithfully,

For Elgi Equipments Limited

S Prakash
Company Secretary

"ELGi Equipments Limited Q1 FY23 Conference Call hosted by Asian Markets Securities Limited"

August 12, 2022

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

MODERATOR: KAMLESH KOTAK – ASIAN MARKETS SECURITIES LIMITED

Moderator: Ladies and Gentlemen, Good day and welcome to ELGi Equipments Q1 FY23 Conference Call hosted by Asian Markets 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 risk and uncertainties that are difficult to predict. Actual results may differ from such expectations, projections, etc., were 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 '*' and then '0' on your touchtone phone. Please not that this conference is being recorded.

I now hand the conference over to Mr. Kamlesh Kotak from Asian Markets Securities Limited. Thank you and over to you.

Kamlesh Kotak: Thanks Mike. Good evening everyone. On behalf of Asian Markets, we welcome you all to the Q1 FY23 Earnings Conference 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 the business performance and then we shall begin the Q&A session. Over to you, Sir. Thank you.

Jairam Varadaraj: Thank you Kamlesh. Thanks always for organizing this Analyst Investor Call and ladies and gentlemen thank you very much participating. It is my pleasure to be with you this evening. I am presuming you have not had too much time to dwell into the numbers that we have just published for our Q1 and a broad level our sales has grown by 42%, but before I talk too much about the sales part I would like to first as always give you a reconciliations of the EBITDA compared to the previous year Q1 taking the same contribution level at a material cost we should have had considering the growth we should have had an EBITDA of close to 1,400 million as against that we have close to about 800 million.

The biggest cost has been one has been the return of some of our overheads business has come back to normal and therefore there has been increase in our overhead and people cost have also gone up because it has been two years in the first year there was no revisions and the second year there was a very marginal revisions and the market for talent right now quite buoyant. So, these were the two reasons that really brings the difference between what our EBITDA should have been and what we came out with. So, I will rely on your questions to go deeper into the profits numbers stepping back and looking at the sales as usual I will start with Australia and then work my way west.

Australia was better than last year, but not as good as what we had anticipated it to be. South East Asia continues to be a challenge because it still had some remnants of COVID, but thing seem to be picking up and coming back there. India had a good solid run across all the verticals. There were some challenges in terms of pricing I will come back and talk about that. Moving to the Middle East, Middle East was not as good as it should have been, there are certain markets in which we grew and certain markets were challenging and of course South Asia especially Sri Lanka was a big problem. Europe continues to be strong in terms of our top line growth so our overall project to incubate Europe is on track and we are continuing to push it we need to optimize the business model which we are continuing to do and we are continuing to increase the size of the team there and expanding our reach and things are going as per plan.

Moving on to North America we had an excellent Q1 in North America across all the business verticals so all the years of initiatives that we have beginning to show the results thus it has been very positive in North America and Brazil of course continues to be strong. Our automotive equipment business had a very solid growth and that partly because the Q1 of last year was very, very poor especially the automotive equipment, but had very good growth. So, if I look at the total growth at a consolidated level is about 42% out of that 42%, 28% came from volume and 12% came from price and 2% came from exchange rate or you may be wondering why our exchange rate contribution to growth is so muted you got to remember that we have our other than India presence is equally split between Europe and US.

So, while the dollar appreciated quite significantly the Euro actually depreciated. So, net-net the contribution of exchange rate has been only 2% compared to a lot of other companies that have been publishing with far higher gains on exchanges. Overall, if I have to make an longer term assessments we said in by 25-26 we will touch $450 million with a 16% EBITDA and a 30% ROCE. We are well on our way there. At the moment the sales number and the EBITDA number seem to be tracking in the right direction towards that. We had a temporary setback on ROCE for the simple reason that we had to invest quite significantly in inventory not only in the plant, but also in our subsidiaries because of huge supply disruptions that we face and we did not want to be left flat footed without machines when the order was there.

So, in fact that has paid off in fact some of our growth can be attributed to the fact that we had availability in the markets for immediate supplies to the customer. So, there has been I think we have close to about 85% crore I would not say 85 crore is the full defect, but I would say out of that 85 crores about half of it is inventory which we will try and bring down the other half of it is we have been having VAT challenges in the GST we are considering that we have a huge international or export business to our subsidiary which it does not attract GST. So, we have a lot of surplus in credit which ID under technically that money should be refunded to us, but that is something that the government is hesitating to do, they are taking a longer term to do that. So, we have to kind of from a kind of procedure point of view we have to pay GST on export even though it is not and then claim a refund on that.

So, that seems to be the circuit is with that way because of that sum amount of capital is stuck there we are hoping it will get resolved. Similarly, in Europe we are close to about 4 million

Euro worth of VAT credit that is hitting there we are going to give a bank guarantee. It is a temporary phenomenon they want to establish credibility of companies before release it. So, we are giving a bank guarantees as a substitute for credibility for the government and then us money release. So, I think in the next quarter we should be able to release quite a bit on this capital out of our working system. So, even as we speak now the supply situation seems to be improving far better than what it was certainly in Q4 of last year and early part of Q1 things are improving both on the import side as well as on the buying side as well as on the selling side even on the export side we are finding that availability of containers is a lot better, the freight lead time far shorter so that gives us the freedom to work with lesser inventory in our subsidiaries as well as freight rates are beginning to come down. So, still far away from what it used to be before COVID, but it seems to be correcting in the right direction.

So, I would say this is a kind of a position is I will come to the last part before we start asking questions is one is the challenge of our raw material prices which was a huge problem in 21-22 the volatility was high and the frequency with which prices changes very high. So, we went through some challenge in terms of our margins. We took a very firm view end of last financial year and we tried to increase correct prices in the market. We are still in the middle of that. So, we are not confident that all of the price corrections that is required to cover the full cost increases that have happened we will be able to realize we are still analyzing what the possibilities are, but what you are seeing now is a situation where on the front end selling was at relatively subdued prices because the revision has now taken full effect, but on the back end side the cost were fully kind of booked in terms of cost the new cost were fully booked.

So, I would expect that going forward the margins in the worst case will continue to be as strong and the expectation is at some point there may a slight uptick, but it is still too early days there are uncertainties around it. So, I cannot make a firm statement on that. So, this is really the summary of Q1 and I will be happy to take your questions. Thank you.

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

Ravi Swaminathan: My first question is with respect to demand especially the India markets, so basically how is the nature of demand as we speak compared to what it was say three to four quarters ago, which are the top four, five sectors, subsectors or industries which are driving the demand if you can give your broad thought process it will be great?

Jairam Varadaraj: First quarter India was continue to be strong, but the trajectory of growth compared to the various quarters of the previous year the trajectory was not there, but it continue to be strong at both levels, but it is still early days my expectation is considering that in a global environment when almost $3 trillion of stimulus amount which just pumped in has been withdrawn and then you have geopolitical uncertainties and you also have individual beginning to spend more of their money on services like vacation and travels. One would expect on top of it inflation pressures across the world. One would expect that there has been some level of softening of this demand we are yet of see it, but we believe that in the third quarter we will start seeing something of that nature and we are prepared for that. As far as industry verticals like I have always maintained all the verticals are firing, there is no one vertical I would say as performed disproportionately higher than the other.

Ravi Swaminathan: Between say infra demand and industrial demand which one is strong broadly at least you can give a broad thought process?

Jairam Varadaraj: I mean you know when you look at nature of our sales our dependence on infra in actual monitory terms as a percentage has been always very small. Yes the inquiry levels in cement and in steel are all quite strong, but even when they materialize they do not constitute a big percentage. So, cut short my response it is industrial level really drive this.

Ravi Swaminathan: And with respect to margins for the standalone business so basically other cost have jumped up significantly, should we kind of look at the same run rate of other cost as a percentage of sales for both other cost and both employee cost also?

Jairam Varadaraj: Employee cost what you see in Q1 is what is a revision and that will not continue to increase at the same pace. It will go into multiply probably into four. As far as other fixed cost are concerned I expect the same behavior, but you got to understand both those cost were at very low levels in the prior year.

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

Harshit Patel: Sir my first question is on the current economic situation in Europe, so given the current situation could there be a delay in our plans to ramp up sales and reach a breakeven point in FY24 or could it play the other way round in the sense that the competitiveness of Europe local players may come down and we might be able to gain even more market share from there higher than what we are expecting right now, so how do you think it could play out in your opening remarks?

Jairam Varadaraj: Harshit we are seeing a very paradoxical situation existing in the whole world. Earlier it was COVID and now it is the Ukraine war. There was a lot of press during the peak times of COVID except for that first quarter of April, May 2020 which was really the first quarter of COVID after that the whole world decided to just ignore COVID and made results happen so that was one. And second when the Ukraine war happened the same thing there was a lot of press saying that this is going to happen, there is going to be a total collapse, there is going to be chaos all this is going to happen, nothing happened. Business is going on as usual. Now I am beginning to feel that citizens of the country recognized crisis, but they do not go into a shell and behave in an extreme fashion in response to these crisis. They are taking a very moderated perspective and license are going on. So, even in Europe if I look at some of our competitors performance in

Europe who are mature players with large market share they have done well and for us who are at the bottom of the market any turbulence at the top of the surface is irrelevant for us, because our market share is so small it is like the fish at the bottom of the ocean, so what if there is a storm, etc., so it does not matter for them.

Harshit Patel: Sir, my second question is on our outlook on the capex plans for the next two to three years you have earlier mentioned that you are planning to consolidate all the manufacturing operations in a single campus, so any visibility as to when you will start that process or it is still too much far in the future?

Jairam Varadaraj: We have already kick started the idea and the planning for it. We have not put any money on the ground or the campus yet, but we have decided that we are going to do it and I expect some little bit of amount being spent this year either in planning or consulting for that kind of amount will be spent, but I expect in the next two to three years we will ramp up our expenditure for the new campus. As far as the amount are concerned it is a little too early, but as soon as the plans are crystallize I will come back and talk about what we are planning to spend for more for the consolidation.

Moderator: Thank you. We have the next question from the line of Vinit an Individual Investor. Please go ahead.

Vinit: In compressor side from which sector company is seeing major demand?

Jairam Varadaraj: Like I just responded to another questions our business does not rely on any one sectors and what we are seeing for the last two to three years and it is continuing on in Q1 of this year is that we are seeing growth across all industrial sector.

Moderator: Thank you. We have the next question from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Sir, I wanted to understand I mean in the air compression side specifically we are one of the dominant players in India and with respect to skewer compressor technology which is there and now we are seeing one of the competitors in this industry and turning into the product of specifically of this skewer technology, so how do you see the competition planning out here given the fact that skewer segment is like 70% of the overall air compressor market and my second question was on the gas side I mean you know given the emerging opportunity in the CGD space I mean how are we looking at this opportunity these are the two questions?

Jairam Varadaraj: Mihir I could not understand your first question I mean which competitor are you talking about those entered into…..

Mihir Manohar: Pune based player.

Jairam Varadaraj: You are talking about Kirloskar?

Mihir Manohar: Yes.

Jairam Varadaraj: Yes they have not entered they have been in this business for a long time. So, yes they do have a presence in the market, but they have a long way to go in terms of getting their products ready, their rains ready and I do not know whether they have global aspirations like we do. So, yes we watch them, we respect them, but I am not having sleepless night because of that and my second thing is they seems to be quite strong in the gas business which is an area that we have specifically said we will not play. So, it is not an opportunity for us.

Mihir Manohar: Just to understand and to improve my understanding I mean my understanding is that they have launched this skewer compressor they were not earlier present by the skewer technology, so is that understanding correct and now they have launched it?

Jairam Varadaraj: It is not true they have had skew compressor and then they have invested a new designs and technology, but it is not like they are new to skew compressors.

Moderator: Thank you. We have a next question from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: So Jai could you just help us understand what has been the increase in pricing in especially in domestic market in India and how are customers reacting to such a steep hike because we understand that there has been some resistance across the board not just the compressor given the steep inflation that we are seeing?

Jairam Varadaraj: Like I explained Bhavin our 42% growth 12% is from price. Now this is compared to Q1 of last year, but if you look at what commodity prices went up from Q1 of last year to now still let us say March of 22 it was close to 25%, 30%. So, what we have really increased this 12%. So question really is 12% excessive and I think we are still under recovering even at 12% whether we have to absorb it through volume and maintain as an EBITDA level or do we maintain a profitability at the margin levels. These are things that we need to be very careful in calibrating in terms of competitors response. Now I do not want to get into specifics of what price increases we have done in India with the rest of the world and all that because of too sensitive an information. The fact remained that if I take the commodity price increase that has happened since the quarter of last year I mean that is all public information, it is not my own kind of a nightmarish projections, we have recovered only 40% of that.

Bhavin Vithlani: Despite that maintain the gross margin there is really a commendable on the design front, value engineering front that is really a commendable from a company standpoint, the second question especially in the domestic market if you could give us flavor on the two sub segments one is it portable compressor segment which is both that goes into the infrastructure as well as water and second on the oil compressor aside you had mentioned about additional products that we have been introduction and deepening our presence here and alongside we understand the leader in the market is facing a lot of constraint on the supply chain side and times on the deliveries have gone up considerably so we are we benefitting on that?

Jairam Varadaraj: So on construction and mining if I look at all possible business let us say into construction mining and water well. Construction mining has done very well as much as it competes strong in terms of growth with the industrials so it has been a very strong performance and the fact that there is a lot of infrastructure investment priority by the government that is trickle down impact and I expect that as long as the government continues down this path of investment there will be a continuing demand for these products that is one part of this story. The other part of the story is the water well market has really it is a bottom and it is in a very poor shape. We are on top of the markets we know how many machines have installed, we know our share of the market has increased, but the market itself has kind of got into a paralysis and the main reason is because fuel prices has gone so high. It is no longer economical for farmers to be drilling bore well and their circumstances have been same to some extent by the fact that there has been good monsoon. So, if the monsoon were not good then probably the demand would have been still stronger in spite of the diesel prices because then that basically sustenance. So, these are environmental periodic challenges that are there, but a product itself that we have launched has got outstanding response I mean that is the key thing and therefore when this market comes back we believe that we will be an extremely strong sequence and that is what we are working on but having said that product has got some very good fashion in some our international market which is a positive point. On Oil Free, we are continuing to grow has had a good quarter. I would not put a negative of a competitor as a positive for us. I mean it is a very strong competitor, lead time challenges are there for everyone. So, I would not say takes that as learnings. There may have been one or two orders here and there that we gained because of our ability to deliver, but I do not think in a technically sensitive products like oil free customers are going to make a decision purely on delivery. So, I do not see that as a big advantage for us.

Bhavin Vithlani: Just last question from my side if you were to request you to crystal gaze next four quarters, would a mixing growth for the consolidated entity in your view the real estate aggressive or conservative?

Jairam Varadaraj: You got to say the question again Bhavin I did not fully get it.

Bhavin Vithlani: Let me repeat if were to request you to crystallize next four quarters what is from second quarter of this year to second quarter of FY24 have we seen revenue growth for the consolidated entity in your view would it be conservative aggressive or realistic assumption?

Jairam Varadaraj: I think it is a good question, but it is a very difficult question for me to answer. I think Q2 will be a strong Q2, but it will be an unfair comparison because Q2 of last quarter was on the back of pent up demand because of a weak Q1. So, while this year Q2 will be quite good in comparison to Q2 of last year it may not be as dramatic as what we have done in Q1 so that is one step forward as far as Q2 is concerned. My concern beyond Q2 is what will be the impact of all these negative economic factors where there is inflations or whether it is the demand for services that will take demand away from products, lack of stimulus and lack of money and consumption in the hands of people. I do not know it is very difficult for me to say. Now what I can say is that India for me is I do not know whether it is going to have strong growth. It will probably have reasonable growth. I am very optimistic about our international business for the reasons that I said our share of the market is low. So, I do not want to put a percentage but if I mid-teens as a big number for me to commit to looking into the future, but it is very difficult from their point of view.

Moderator: Thank you. We have the next question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: Now continuing with the earlier question of Bhavin on the pricing front I want to understand what is the pricing difference after taking 12% price hike I want to understand how the other players or leading players in the industry especially globally have done on the pricing front, so want to understand that kind of gap that would be there between your company and Atalas in terms of pricing because I believe pricing really one of the important element of growth especially in international market so that is my question?

Jairam Varadaraj: It is almost impossible for me to say what percentage of price difference is there between ELGi and Atlas Copco or Ingersoll Rand almost impossible to say. The price is such a dynamic thing in the market you need to look at general trends of where we are now when we look on a steady state basis before all this COVID related chaos in commodity prices hit. In India we were probably 10% to 15% maybe 10% lower than Atlas and Ingersoll Rand. In the rest of the world, we are probably 20% lower and 25% lower than Ingersoll Rand or an Atlas Copco. Now what are we today I do not know are we still lower probably we are lower, but some percentages are very hard to guess now if you have looked a performance of Atlas Copco second quarter or their second quarter what is our quarter worldwide there has been a significant loss of profitability view of satellite chain which basically means that their prices, their cost have gone up and they have not increased their prices, but they have gained significantly on exchanges. So they are compensated for that. So, they have the benefit of that and they were able to do it and if you look at Ingersoll Rand Q1 India numbers they have compared to the prior year Q1 of last year their material cost has gone up by 6%. Now, if you look at LG case I would say we are not so different either only if you take the India business I mean you have not look at the standalone and you have not look at the consolidated, but if you look at the India business we are pretty much in the same kind of a declaration in material cost. So, I would then have to say that we have not kind of gone away from what that earlier parity in price was between us and our competitors, but it is still early days. We have got to understand this dynamic a little bit more.

Rahul Gajare: My second question is on backward integration now I do understand that we are looking at integrating manufacturing into a single…. could you discuss more on what is it that you are doing and how is this going to be playing out not in terms of costing, but in terms of overall manufacturing for you all and therefore are you looking at more backward integration somewhat it exist already do and I think continuing with that question would all of these backward integration will we able to meet all your internal requirement or you still need to go out and source from elsewhere?

Jairam Varadaraj: So, there are two things one is building our new campus that has got nothing to do with backward integration that is an efficiency improvement, capacity improvement. The current city campus is bursting at its thing. We cannot afford to operate the way we are operating here. So, we need to go to a larger campus and have the ELGi rooms and improve our overall efficiency. So, by doing that we will also be saving certain hospital replicated so that is one part of it. As far as backward integration is concerned there are three areas of backward integration that we have done in the order of chronology one was our pressure vessel divisions, second was our foundry and the third was our motor. Now why did we do pressure vessel we do pressure vessel because it is a safety related component. We are growing our strategy alone at that time and now as well as to build a business. When you have a pressure vessel if it breaks it is a catastrophic thing we cannot afford to have that. So, we could rely on the inconsistently of quality with our suppliers and we could put our brand name on that and instead of have some disastrous consequences. So, that was the reason why we did it. Now do we do all of our pressure vessels ourselves no we do not. There are diluted less technical compressor maybe for the India market where we know what is required, how to console it, we do have suppliers of pressure vessels so it is not like it is 100%. Moving to the foundry the same reason I mean we have get it for quality, we had to have the quality for some of our casting and we have achieved that and today the quality of the casting that come out of our foundry is outstanding and do we make 100% of our castings? No, there are certain castings that we buy from other foundry, same thing with motors. Now the reason why we integrated backward into motors if you improve satellite chain, improve the performance, equity power performance of our compressors and also ensure that we do not have a cost penalty with respect to sourcing from China as we wanted to reduce the sourcing risk of China. So, that is what we achieve so have we all done no, do we buy motors still from China yes we do and do we buy from Siemens yes we do. So, it is not like we are switching over 100%, it is very strategic thing that we have done. So, that is how it will continue into the future.

Rahul Gajare: Can you put some range in terms of internal the backward integration that manages your procurement and what you have to source externally?

Jairam Varadaraj: You are talking about percentage it varies from pressure vessels casting and this motor will be very different and I do not have the numbers.

Moderator: Thank you. Mr. Vinod Shastri you may go ahead with your questions.

Vinod Shastri: I have two questions, but that is not related to the numbers actually what is the success is there any success any plan that is going within ELGi would be first question and the second one would be what is the attrition rate with an ELGi as of now at least in the fourth quarter of 2022?

Jairam Varadaraj: Yes subsection is a very active subject. It is being discussed as soon as our clean plan is finalized it is in the process of being made. Once it is finalized I will certainly announce this both in terms of both the process as well as timing. As far as attrition is concerned you got a slightest at various bands. So, you take a band that is at the top of our employee level our attrition is zero then if you take the attrition at the right at the top it is marginal almost nothing then if you look at the middle layer also it is not very high, but it is only in the entry levels, white caller employer in the first 5 to 6 years of their career track that is attrition, but is nowhere near the attrition at the IT industry is there. So, I do not have a consolidated attrition percentage, but our regrettable attritions are very low.

Moderator: Thank you. Now we have no further questions. Any remarks you would like to make.

Jairam Varadaraj: I am fine Kamlesh I think I have pretty much covered what I wanted to say I want to thank you for taking the effort to organizing this. Thank you.

Management: Thank you everyone with that we conclude the call. Thank you for joining us have a good day.

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