



**“Elecon Engineering Co. Ltd. Q2 FY22 Earnings
Conference Call”**

November 25, 2021

MANAGEMENT: MR. PRAYASVIN PATEL – CMD

MR. KAMLESH SHAH – GROUP CFO

MR. NARASIMHAN RAGHUNATHAN – CFO

Binay Sarda:

Good Morning to all the participants on the call and thanks for joining this Q2 FY22 earnings call for Elecon Engineering. Please note that we have mailed out the results and you can also see the results on our website as well as it has been updated in the Stock Exchanges. In case you have not received the same, you can write to us and we will be happy to send this thing over to you.

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

To take us through the results of this quarter and answer your questions, we have with us the management of Elecon Engineering, represented by Mr Prayasvin Patel, CMD, Mr Kamlesh Shah, Group CFO and Mr. Narasimhan Raghunathan, CFO.

Mr. Prayasvin Patel will give a brief overview of the quarter gone past and then we will open the floor to Q&A Session.

With that said, I would now hand over the call to Mr. Prayasvin Patel. Over to you Sir!

Prayasvin Patel:

Good morning everyone. Very warm welcome to Elecon Q2 FY2022 conference call and we hope that you enjoyed the festival of the Diwali and we wish you a very happy and a prosperous new year. Also, we hope that you have been taking abundant precaution in tackling the pandemic as more and more activities are open in the days ahead.

Our Company has declared the results for the half year ended September 2021, which is available on our website. Discussing the result at the standalone level we have had a relatively healthy quarter with both gear and MHE business reporting good performance. During the quarter, the total operating income increased by 14.7% year on year to Rs.235.2 crores from Rs.205 crores in the corresponding quarter of the previous year. The EBITDA on absolute basis stood at Rs.50.9 crores as compared to Rs.53.3 crores during the corresponding period of the previous year, this translates to EBITDA margin of 21.7% in Q2 FY22 as compared to 26% in Q2 FY21. The decline in margins was due to the change in product mix. We close this quarter with PAT of Rs.23.1 crores as compare to Rs.20.2 crores during the corresponding period of the previous year, an increase of 14.7%. During the quarter we have reduced the debt by approximately Rs.40 crores and we have taken various steps to substitute high cost debt with low cost and we continue to pursue the same which will help us in reducing the interest cost during the rest of the year.

Standalone half year results - The total operating income increased by 54.1% year on year to Rs.454.5 crores for H1 FY22. The EBITDA increased by 107.2% year on year to Rs.101 crores as compared to Rs.48.7 crores during the corresponding period of the previous year. This translates to EBITDA margin of 22.2% in H1 FY22 as compared to 16.5% in H1 FY21. The PAT increase to Rs.46.2 crores in H1 FY22 as

compared to Rs.1.4 crores during the corresponding period of the previous year.

Coming to the consolidated financials of the Q2 FY22, the operating revenues increased by 17.7% to Rs.310.4 crores in Q2 FY22 as compared to Rs.263.7 crores in Q2 FY21. EBITDA increased by 13.4% Rs.66.7 crores as compared to Rs.58.8 crores in Q2 FY21, this translates to EBITDA margin of 21.5% in Q2 FY22 as compared to 22.3% Q2 FY21 much. The net profit increased by 1.1% to Rs.35.4 crores by Rs.22 crores in Q2 FY21.

Consolidated half year results - The operating income increased by 51.3% year on year to Rs.602.9 crores for H1 FY22. EBITDA increased by 123.6% year on year to Rs.125.5 crores as compared to Rs.56.1 crores during the corresponding period of the previous year, this translates to EBITDA margin of 20.8% in H1 FY22 as compared to 14.1% in H1 FY21. The PAT increased to Rs.62.6 crores in H1 FY22 as compared to Rs.1.3 crores during the corresponding period of the previous year.

Order book position - overall we have had a relatively healthy performance in the quarter, largely driven by traction in the gear business as above. We are seeing a gradual pickup in demand on the back of recovery in economy and we saw a ramp up in the order booking with order book position as of October 2021 worth 340 crores in gear business and orders worth Rs.72 crores in the material handling business. In our overseas subsidiaries, we have been witnessing good improvement in our market reach in the Americas region of USA, Canada and Latin America based on which the revenue growth is seen. For entities in Europe, clarity in Brexit is helping us and despite the impact of the pandemic we continue to be profitable. We are also taking various steps as much as possible to overcome logistic constraints due to pandemic. Total order book position of Elecon group stands at Rs.514 crores. Based on our change in strategy in US operations we are witnessing positive momentum in the order intake and revenue, and we expect frequent improvement in the overall performance in the US business in the coming quarters.

Focus on debt reduction, similar to debt reduction efforts we are taking in India. We are also in the process of reducing the external debts of our overseas business. We are in the process of becoming debt free in our overseas entities by the end of next month.

Future outlook and strategy, we continue to focus on strategies to create long term value for shareholder. The MHE division is now becoming more resilient as we are in the process to complete the punch list item part of the COD process to hand over our legacy projects and are now focusing more on product business in the MHE division. We continue to streamline existing operations which has led to improvement in EBITDA margins and overall profitability. We will continue to strengthen our balance sheet and reduce our debt and liabilities in the coming quarter. We are confident that the performance will continue to improve in the future looking at the revival of the demand scenario and on the back of strong execution and favourable product mix.

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

Binay Sarda: Thank you. Before we pass on to the queue, we'll take one question from the chat board. Prashant asks, I would like to know that in the material handling projects are we expecting any write off or loss in future? Have you taken any write off in the past, what is our pending execution in this segment?

Narasimhan Raghunathan: We are in the stage where turnkey projects whatever we have taken in earlier years, will close it in this year and will be claiming the retention money. There is a process by which after the completion of various activities, various milestones and certificates have to be obtained, these claims have to be lodged. We will be looking forward to receive those and we don't expect loss from those claims.

Binay Sarda: Thank you. We'll take the next question from Pritesh Chedda. Request to unmute and please state your name and institution name.

Pritesh Chedda: Thank you for the opportunity. So this is Pritesh from Lucky Investments. So the question, in your opening comments about repaying a substantial part of the debt by next year. So does that include a lot of retention money to be received as your assumption to repay the debt or do you think that naturally from the cash flows of your business you will be able to repay the debt? With that my second question is, you're referring to substantial reduction in interest cost by virtue of re-pricing of the debt. So, if you could help us understand what do you think should be the debt numbers for FY22 and FY23 and what should be the interest cost expense for FY22 and FY23? These are my two questions. And I have one more question on gear motor, gearbox. I'll come back.

Prayasvin Patel: Let me start off Narasimhan and then you take it over halfway through. Pritesh thank you for taking so much of interest in our company. First of all, let me tell you one thing that our generation has been so positive that we have been able to reduce a substantial part of our debt and apart from this, we are right now thinking very conservatively that we will recover zero amount of money from the material handling projects which are going. Even if we do that, then also our positive generations which are happening because of the high turnover in gear, the high profitability, as well as reduction in the overall debt and the interest cost itself is giving us enough accruals by we should be able to become debt free very soon. With this Narasimhan will give you the figures going ahead.

Narasimhan Raghunathan: So this debt reduction will happen from both the accrual which will happen based on the business performance, as well as collections which we expect from the material handling division, it is a combination of both. In terms of the amount, approximately on an average in a quarter we are reducing the debt by around 30 to 40 crores and same has been covered in CMD's speech. So we might become debt free at consolidated level by 2023.

Pritesh Chedda: Okay and what is the retention money currently in balance sheet which needs to be recovered, so that could be your additional kicker.

Prayasvin Patel: Around 100 crores.

Pritesh Chedda: Okay. My question now is on your gear motor gearbox side of the business, from your opening comments you were mentioning about, better activity in the economy and you're seeing inflows. So just from the gear motor gearbox side, when you look at this order backlog, are you seeing now growth in revenues will start building up because our business and that for matter a lot of capital equipment business have been stagnant for quite some years. So are you seeing a situation where you get into a phase of multi quarter, revenue growth rates and from the margin perspective side, we do have fairly 18-20% EBIT margin, which also has benefits from your slightly profitable export orders as well. So, if you could give some comment on the margin direction as well for the gear motor gearbox alongside the growth direction, with whatever data points that you are seeing building up for the business.

Prayasvin Patel: Let me start off by saying that, first of all, the Indian economy has taken a substantial traction, which means, the capex cycle especially in the core industries, the infrastructure building industries like cement, steel, etc. have all started catching on, which is giving us a healthy inflow of orders and this also includes businesses like sugar, which is also catching a good traction. Recently, we got one of the largest orders very recently in the last 2-3 years from the sugar business. So, overall, the Indian environment seems to be extremely healthy. It is also backed up by good inflow of orders coming in from export, especially because of the fact that as mentioned in my speech, probably we have seen the past of Brexit now UK is on the verge of getting over the effects of Brexit. In United States because of the huge pumping in by the government money during the COVID situation, we are seeing a good amount of traction even in America that is USA as well as in South America. So there are heavy orders coming in from there. So overall, everything seems positive and that is showing in the figures also. We are expected that our export sales over a period of time will improve further because there are a lot of actions that we are taking to see to it that we penetrate further deeper into the market, to get more of these. As long as our after sales business is concerned that is also showing a healthy traction. So all in all, things seem to be very positive.

Pritesh Chedda: So from your comment, can we conclude that, we actually seeing a multi quarter high growth rates in the gear motor gearbox side of the business from the revenue perspective.

Prayasvin Patel: Definitely yes.

Pritesh Chedda: And from the margin perspective, you didn't give a comment.

Prayasvin Patel: Margins perspectives we are watching our margins very carefully because since the ordering flow is very healthy, we don't compromise on the margins as long as sales are concerned and that is reflected in the performance of the company.

Pritesh Chedda: And last year the asset utilization side in the gear motor gearbox what capacity utilisation you would be running at and will you need any capex?

Prayasvin Patel: That is an interesting question. As long as capacities are concerned, we don't need any additional capex because today also while we are talking we are hardly operating at about 60% utilization of capacity with subcontracting that can be done, we can increase our turnover to a substantial extent if required. As long as replacement of machinery is concerned, yes, because we had not done a capex for a long period of time. Machines which have got outdated, machines that have lost the accuracies and machines which have become obsolete all those would have to be replaced. So, there is a definite planning that the company is going through on what would be the requirement of capex, what needs to be replaced when and how, but we will make sure that there is not a substantial debt that we will take going forward to replace this units.

Binay Sarda: The next question is from Vishal Prasad. Request you to state your name of your institution, please.

Vishal Prasad: Hi, good morning. This is Vishal from VP capital. I have few questions, 7 years back we used to talk about us trying to get into windmill machines, I mean supplying gears to them, but I don't see the discussions anymore. So what has happened there if you could help me understand it.

Prayasvin Patel: Sure. Vishal windmill business, our machinery and infrastructure that we have, we had put in about almost 10 years ago, is capable of not only doing windmill gearboxes, but also planetary for cement, for planetary gearboxes for sugar, as well as for various other industries. So the machinery being common, we were trying to pursue all the areas. What we have found with windmills is yes, if you join hands with the very large players, it gives you a consistent quantity of boxes for the windmill but it is a very highly risk oriented business because if the quantities of windmills to be installed reduces, you land up with substantial amount of inventory because the entire process is driven by numbers. So as well as there are also very high level of risk failures and maintenance and that is the reason why we have taken a back step because what we believe is that if we can generate enough margins in the other business, it is better to avoid this business to large extent, but that doesn't mean that we will completely be out of it but we will be treading into this very carefully and cautious.

Vishal Prasad: So second question is on our defense side of business, I think it's been 6-7 years when we got the large order from Navy, I might be wrong, but I haven't seen any traction in the business. I mean, we getting new business from navy or defense side. So what has happened there, is something we are lacking or there is no order coming from them?

Prayasvin Patel: Before we get into this, what I would like to show you is in the background, the gearbox that you see behind my back is the gearbox that we have supplied to the Indian Navy for their aircraft carrier ship, which has been just launched by Cochin Shipyard. This is the first attempt by Indian Navy to make 100% indigenous ship which is an aircraft carrier and we are all proud that we have been able to supply these units and which have been working extremely well. They have been taking trials and the performance has been extremely good. So, now coming to your question, yes, I don't remember exactly how many

years but about almost six to seven years, since we last got order for Indian Navy. Now, normally if you look at the Indian Navy cycle, it comes in spurts. It is not that we have lost any single order it is just that your navy orders the ships not all of them at the same time, which means once an entire project get over then they go back and then order a different project whereby they bill ships in quantities of 3-5-7 etc. So once this project gets over then they will go in for something which is required by them in quantity. So as I told you, we have not lost a single order. On the other hand we are aggressively pursuing the new projects which are coming in and hopefully we will be successful in getting those orders as an Indian Navy releases.

Vishal Prasad:

Okay, so last question from my side. If I look at you and the organization generally we are very considerate about risk. I mean we think about risk before getting into anything but when I look at the turnkey MHE business, we have not been very successful there. So could you share your thought process on why we got into this business and any learning that we have from whatever happened there? That would be great.

Prayasvin Patel:

The company started with material and therefore if you look and if you dissect the name Elecon it means elevators and conveyers, "Ele" stands for elevators and "con" for conveyors. Elevators are not the lift elevators they are bucket elevators, the ones that you'll find them in cement plants and the fertilizer plants. Now, we have been in material handling for many number of years and material handling business always goes through a cycle where there is a boom period and then there is a recessionary trend which comes in which has also happened recently. But what normally happens is once you get into recession, you normally don't go pursuing projects. The reason is everyone who is in this business is chasing the same order. It is like saying that there is hardly 10% business all the companies are pursuing that 10% rather than, trying to avoid taking orders. So what happens is the price levels go to such low extent that in projects you make huge losses and which is the reason why we have kept ourselves away from projects in the recent times and we are trying to sell products because over last 30-40 years the entire material handling industry in India relies on Elecon products. There is practically no single power plant where Elecon products are not there and if you meet the employees, they will tell you that the Elecon products are robust and keep on working for years and years, which is the reason why we have decided that under the present circumstances, it is better to only sell product. The other advantage of selling products is that you invoice the products as and when they leave the company finished goods and you recover your money fast in projects your money gets retained by the customer and it takes years to collect them back. So, it is advantageous right now, under the present circumstances, to pursue products rather than projects and which is what we have been doing even in the past because in the last 40 years we have gone through this cycle many times and every time there is a recession, you start only selling products and stay away from projects.

Vishal Prasad:

Thank you Sir.

Binay Sarada: We have a next question from Ankit Babel. Please state the name of the institution before beginning the question.

Ankit Babel: Good morning. This is Ankit Babel here from Subhkam Ventures. Sir my first question is during the quarter and in the first half, what was the contribution from the Navy order in your revenue?

Prayasvin Patel: Contribution as long as turnover was concerned that we can give you Narasimhan I think we have invoiced approximately about 100 odd crores if I'm not mistaken. Can you give the exact figures?

Narasimhan Raghunathan: Invoicing up to date is Rs.380 crores.

Ankit Babel: No my question is in this quarter and first half of this year particular. Approximate figure will also work.

Narasimhan Raghunathan: Its around 50-55 crores.

Ankit Babel: Okay and what is the unexecuted order book remaining in that segment? I mean in the Navy order

Narasimhan Raghunathan: 70 crores

Ankit Babel: So that 70 crores you expect to complete by the second half of this year.

Narasimhan Raghunathan: Can spill over to the first quarter of next year.

Ankit Babel: Okay, so my question was, so, this year around 100 crores of revenue would be contributed by the Navy order approximately. So, Patelji my question is to you that, suppose if we end the year at around 1050 crores in your gear business revenue at the consol level and in that 100 crores would be from the Navy order, which would not be there in next year. So, on a base of 1050 crores approx what kind of growth can you do in the gear business on a consolidated basis next year, assuming that there is no contribution from the Navy order next year.

Prayasvin Patel: There are two aspects of this one is the top line and the bottom going forward. So, we have been evaluated this and knowing that the next year there is no navy order which has come in up till now, we will have a shortfall of 100 crores from the Marine business. Considering that we have tried to see to it that whether we can enhance our business in the export area and we are confident that at least 30-40% additional revenues we can expect from export in the next coming year, that is number one. Number two is as long as bottom line is concerned, we have evaluated and we believe that the bottom line we will be able to sustain in spite of the fact that we will not be having the Navy business in the next.

Ankit Babel: 30-40% on what base of exports.

Prayasvin Patel: 30-40% of the 100 crores that means 30-40 crores additional business we expect from the export business.

Ankit Babel: Okay, so is it fair to assume that you might actually report flattish revenue growth next year in the gear business at console level?

Prayasvin Patel: Top line yes.

Ankit Babel: Okay. And my second question is that again at the consolidated level of their business, last year you had reported around 22% EBIT level margin at the console level. So, where do you see these margins in this year and next year.

Prayasvin Patel: As long as margins are concerned, we expect the margins to be maintained even in the next year because there is going to be a substantial debt reduction, as well as the restructuring of our loans will give us the additional revenue that we were getting from the navy or marine business.

Ankit Babel: Sir, my question was at the EBIT level. Interest costs I understand will come down but before interest your margins were around 22% last year.

Prayasvin Patel: Those would be maintained.

Ankit Babel: Okay. So last question is on your material handling business, what kind of revenue and profitability you see next year.

Prayasvin Patel: See revenues as far as we are concerned, as far as long as the top line is concerned, we have been going very conservatively and very cautiously. We are not taking orders where we don't get the type of margins that we are looking for. So, the top line would definitely be hit, it would be in the similar range as what we are doing today. It may go up by 20% to the max but we wanted to see to it that we maintain the bottom line, which we are very confident that we will.

Ankit Babel: Sir, maintain in the sense the 6 crores EBIT level profitability run rate on a quarterly basis can be sustained from here on.

Prayasvin Patel: It will further improve because as I told you that the interest cost on the material handling business will go down substantially.

Ankit Babel: But again, my question was at the EBIT level

Prayasvin Patel: Yes, at EBIT level we will maintain the margins what we have today or improve upon them to some extent.

Ankit Babel: Okay. Thank you.

Binay Sarda: Thank you. We have a next question from Manan. Request you to state your name and your institution name before beginning.

Manan: Yeah, hi, this is Manan here from Money Securities. Sir, my question was on the order book. So sequentially there has been a drop in our order book in the gear division as well as the MHE division and also we mentioned that a group order book is around 514 crores, so this differential of 100 crores of the order book, how does it benefit Elecon engineering? And secondly, if you can provide a breakup between the gear book between our catalog products and non catalog products

Prayasvin Patel: See under the present circumstances, not having a large backlog of orders is working to our advantage. On one hand, it is not reducing our turnover and on the other hand, because the prices have become extremely volatile. Steel prices have increased, copper prices, all metals are going through a substantial and therefore what is happening is it is better not to have a large backlog of orders because this volatility one doesn't know where it is going to lead because as you know the

international environment is quite volatile once again. So, considering that fact we believe that going forward we want to tread very cautiously and see to it that we maintain our margins in the orders that we receive especially in gear because the cycle of manufacturing is very short.

Manan: Okay and catalogue and non catalogue bifurcation on the order book and also on the differential of 100 crores between the Elecon group order book and the company order book. How does that benefit us, if at all in any way.

Narasimhan Raghunathan: Can you clarify the question?

Manan: Yes, so we've mentioned that our gear auto book is around 340 crores, MHE is 72 crores which totals to around 412 crores and we mentioned that the Elecon group was around 514 crores so the difference over here is around 102 crores.

Narasimhan Raghunathan: With group we mean Elecon India as well as overseas, nothing to do with other group companies.

Manan: Oka, got it. Now my next question was on the retention money, so in our previous call we mentioned that the retention money was around 250 odd crores and I think earlier in this call, you mentioned that the current retention money is around 100 crores. So, just wanted to confirm if there has been a release of 150 odd crores during the quarter and also we mentioned that by end of Q3 we will be net debt free. So, on that basis are we expecting 100 crores of free cash flows in Q3.

Narasimhan Raghunathan: So, for net debt free it is my overseas entities which will be net debt free before the Q3 of this financial year.

Manan: Can you quantify what is the debt at the overseas subsidiaries.

Narasimhan Raghunathan: Presently our overseas subsidiaries having the debt of nearly 40 crores in terms of Indian Rupees before giving to set up before the end of this Q3.

Manan: Okay and regarding the retention money because last quarter we mentioned around 250 crores and I think earlier in the call you mentioned as 100 crores

Narasimhan Raghunathan: Last time we would have mentioned both gear and MHE put together.

Manan: Okay. So, the current retention money of 100 crores is only for the MHE divisions.

Narasimhan Raghunathan: Yes

Manan: Okay. Thank you that will be all from my side

Binay Sarda: Thank you. We have the next question from Zaki Nasser. Please go in.

Zaki Nasser: First of all, congrats to you and team Elecon for the fabulous performance this quarter. Sir, there are two questions I have. We are currently logging at 60% of our capacity utilization and in one of the last call mentioned that you are looking at maybe a different kind of usage for this additional capacity or space. Have you crystallized anything on that end.

Prayasvin Patel: We have been able to crystallize that is not the point. The point is that we are looking for more orders from that area, where we are doing some trials with the railway business as well as other kinds of business where you have, as we term it as loose gears. See today our business consists of gears which are put in a gear box, which is the casing. Loose gears means where you have gear components which certain industries require, where you only sell the gear components, especially, let's say railways, so they buy only gear components. So, we are looking at gear business from the railway sector as well as others where we can supply loose gears to further enhance our capacity utilization but that is constantly on we have to do various trials, we have to go through an entire cycle which quite often takes a long period of time.

Zaki Nasser: But in your opinion, so how large can this business be?

Prayasvin Patel: The total potential would be around about 50 crores per year.

Zaki Nasser: And right now our debt levels are around, maybe a little more than 200 crores. I guess Elecon would close its long term borrowing but what level of working capital debt would you be comfortable in maintain in terms of maybe specific expansion or capacity utilization?

Prayasvin Patel: See our intention first of all is to become debt free whether it is long term loans or whether it is working capital. So the company will work towards that and as in when it requires any kind of infusion of money it will probably go to the market to get by other means except for taking loans, because there is a capex cycle, there could be acquisitions, there could be a whole lot of this which one would expand in. So, but the intention would be to remain debt free now in the future because we have seen a lot of ups and downs in the economic cycle and we had some tough times and we would like to see o it that we don't go through the same mistakes that we have done in the past.

Zaki Nasser: Sir one question general about the engineering industry, I mean, past three quarters we've seen a pretty volatile movement in the steel prices. How easy has this been to pass on to the consumer sir and what do you foresee going ahead from now about these prices and the effect on general products of the engineering industry?

Prayasvin Patel: Luckily, if you look at the our business especially which consist material handling and gear, if we were doing projects it would have been a situation because projects normally the prices are fixed or even the escalations if there are with the escalation formulas, you are not able to realize the complete increase or pass on the complete increase to the customer. So, luckily since we have not taken any project orders, we have not faced that those problems. As long as gears are concerned, yes, it does affect us but if we are careful then you can pass on the increases to your clients, which we have been able to do successfully this time.

Zaki Nasser: Thanks a lot, and best wishes.

Binay Sarada: Thank you. We have a next question from Sunil Kothari. Please go ahead.

Sunil Kothari: Thank you very much, good morning everyone, congratulation Prayasvin for such a good performance. Not just this quarter if I look at the last 3-4 year, the way we have change is really commendable, looking at reducing losses from material handling, increasing profitability in gear division, increasing profitability in external market outside Indian Territory.

Prayasvin Patel: Thank you very much.

Sunil Kothari: My question is looking at profitability improvement, India is not much recovered and the capex cycle is improving. So, what are the reasons you will like to ascribe to this successful and very high profitability of our business division. I think one apparently use to be of course market but looking at your last 10 year efforts, our exports from India is not that sizable. So how do you look at this opportunity during next 3-5 years and what type of size will you like to reach in terms of number in domestic or ability to penetrate international market.

Prayasvin Patel: You are right Sunil. I would put it this way that we had ventured into areas where we had expected that we would get a large sum of business from the export and which is the reason why we had acquired these companies. But we had to reorient ourselves to this kind of marketing, as well as products which were slightly different from what the companies were selling in the past plus we had a huge setback in United States when we started off, we started off very enthusiastically hoping that we will be able to sell products all over the country in United States. We made losses in it, we had to retract ourselves change our strategy completely. We re-entered the market with a different strategy now we have been successful. So, it's been a big learning lesson which consumed a lot of time but going forward, you're expected to have very positive results. Believe that we can see the next few steps ahead which very fast. And if you look a year on year, our sales in United States has been increasing and so has it been even in Europe. I still believe that there is a lot to extract from those markets. We have just seen the tip of the iceberg. So there is a lot that can be done and going forward we will be keen to improvise and change our strategies if required to further pursue those markets and get bonuses, but I can tell you one thing that our teams which we have put in, especially in United States are very dedicated and committed. They have a lot of enthusiasm that they will be able to do much better, even in the future.

Sunil Kothari: Prayasvin bhai can we aim or objective to reach 500 crores revenue from export from next 3-5-7 years, can those type of abilities can we keep.

Prayasvin Patel: Yes, once we stabilized with our margins and profitability and a bit of a performance, the future would be that we go and acquire more companies and do consolidation in Europe, and maybe if required even in the US, where you buy small companies put them all together so that your you are able to reduce your cost by consolidation. Look for additional markets through these companies and grow, which according to me has great potential. We were not able to do that in the past because of the financial problems that we went but I believe that

is the future and that is what we need to pursue which will help us grow our domestic business in a big way because we will be able to manufacture out here and export.

Sunil Kothari:

My last question is, because of your so many experience and what many up downs you have seen, is the guidance to follow for the way you have created this empire. What is your thought process for next 3-5 years, one is definitely you are not going to be any high debt organization. What you'd like to do in next 3-5 years which help us to keep this Elecon brand and Elecon organization for next 30-40 years. What's your objective over next 3-4 years, may be some consolidation of some small units of your, increasing your stake, any thoughts you would share on this thing.

Prayasvin Patel:

As I told you, in the gears to go in the future would be more acquisitions especially in Europe or in the Western nations, especially Americas, that is the one. The future also in because in the material handling business is where we have taken a backseat right now as long as projects are concerned. We have huge facilities which are available to us and we need to look at new products that we can look into in other kinds of businesses except material handling, we need to diversify into that. Right now the focus of the management is to see to it that we get debt free. The second aspect of the business would be how to utilise the facilities that we have in material handling to do other kinds of business and I believe that there is a good potential in the construction business which means in road building and in bridges. So, equipments that are required to manufacture roads, as well as to build roads, as well as to build bridges is what we should look at seriously and see to it that we get into that where we can supply these equipments to the builders and I believe that the way India is progressing on that side, there would be no recession coming in at least for a couple of years, which would give us time to stabilize in that business.

Sunil Kothari:

Great Sir. Wish you good luck and thanks a lot and we'll come back.

Binay Sarda:

Thank you. We'll take a question from a chat board says, why do you expect nil growth in top line for gearboxes business next year even assuming 100 crores goes out given the conducive environment in all your geographies. Shouldn't you be able to make up for it and even grow or do we mean similar top line FY23 is the very minimum we can commit.

Prayasvin Patel:

The Indian market is something that should go grow but today it is very difficult to say anything because of the COVID situation that is the situation world over. Today COVID is a wave which comes and goes and again comes back. So it is very difficult to predict what the future could be. But considering the fact that may have been conservative, considering the fact that though COVID had hit India as well as our area very badly in the beginning of the year, we were still able to operate and generate a turnover and meet with our targets. So, considering that we are very conservative, that is why we are saying that we will be able to maintain our figures and we are expecting that in the export we would be able to get at least 20-30% jump and we will be able to

maintain our bottom lines and improve upon it. Those are the very conservative figures that we are trying to tell you. Again, hoping that COVID would not turn out to be very nasty.

Binay Sarda:

Thank you. There's another question with ask, can you put some light on R&D expenditure going right now or expected to incur in next financial year and any positive impact you can have in exports due to current sources of electricity in China. This is from Chirag Jain.

Prayasvin Patel:

R&D expenses, according to me in our company would be almost 2-3% on continuous year on year basis. We continue to develop new models, new applications on a continuous basis and I can very proudly say that in the Indian environment there are very few companies who are doing the kind of R&D that we are and we continue do so and it is part of our DNA which means on a continuous basis we are showing things that has got a good potential to go and get us more business in the near future. The second half of the question I do not recollect apart from R&D, there was something else.

Binay Sarda:

Yeah, so any positive impact you can have in exports due to current shortage of electricity in China.

Prayasvin Patel:

Unfortunately, we are not deeply penetrated into China, we have very negligible business in China. So we've not been able to pursue that aspect. However, the far eastern offices that we have, are aggressively trying but not to sure how successful we will because China is a very tricky market to penetrate.

Binay Sarda:

Thank you. We will take the last question from the Vishal Prasad. Please go ahead.

Vishal Prasad:

Hi, sir. Few more questions for my side. So you talked about our US business and you talked about we need to look at smaller companies and probably will take over and you also mentioned that how we have put a new team together. So, could you talk about the challenges that we face in US market that we have to overcome through acquisitions?

Prayasvin Patel:

First of all, the biggest challenge we face in the beginning is the cultural gap that we have between the two countries. Though you can say that the whole world has become international and today it doesn't matter where you are, the Western and the international culture is more or less the same, but the people are different and we believe that when we talk to them also we feel the difference. Their understanding of what our requirements are, and what they do, are quite often different. We have found that it is better that we inject a few people of our company into that organization to see to it that the transition from what they were to what we want them to be becomes relatively simple, so that is a big challenge. A cultural change is a very big challenge and quite often the expectation that we have vis-a-vis what they feel they need to do are also quite different. So we've learned a lot as long as that is concerned. Retaining people right now is one of the biggest challenges that we are finding especially in Europe and United States because of the government giving a substantial compensation. We find that people are jumping jobs very fast.

Vishal Prasad: Sir my question was more from acquisition perspective. You mentioned that we would have to look at positions. So is there a gap in our capability that we are trying to address through acquisitions?

Prayasvin Patel: No, see the gap is reaching out to the different markets. What we found out is that when you try to export from here the conversation happens through emails and there's exchange of data. But actually when people from their own country go and meet them and talk to them and quite often those clients, if they have met them before and have transacted business with them, their sense of comfort is quite high and that helps them back more business. So if you acquire companies who operate locally and if they go and meet the customers in that area, the chances of success become extremely, which is the reason why you need to do this.

Vishal Prasad: Sure. Last question is, in the past, we've talked about opportunities in railways. So do we still see opportunities there and what how large that would be?

Prayasvin Patel: We have found that the domestic market in railway is very competitive and there is cutthroat competition. The margins are not healthy enough for us to penetrate into that area but railway business is a huge business internationally. So, one needs to penetrate into that area and we are looking at the European market, whether we can penetrate into that market with some kind of alliance

Vishal Prasad: Okay, and is there anything happening on pipe conveyor side?

Prayasvin Patel: No, pipe conveyors as I told you would become a project and therefore right now all we tried to do is people who get orders for pipe conveyers, we've tried to supply them products.

Vishal Prasad: Okay. Sir, you mentioned about MHE business where we are trying to get into manufacturing equipments for this construction. So, could you talk about the products that we would be manufacturing there, have we finalized anything?

Prayasvin Patel: Right now, nothing has been finalized. We see a good potential in that area. One needs to explore and evaluate everything before jumping, so it still in the very Exploratory stage.

Vishal Prasad: Okay. Thank you Sir.

Binay Sarda: Thank you. We will take the last question from Kartik. Please state your institution name.

Kartik: Wanted to understand prospects in US business better both for catalogue products as well as custom built products. And if you have to give some kind of goal post for FY24 separately for different region, Europe separately and US separately, some thoughts would be interesting

Prayasvin Patel: We believe that we should be able to grow by 25-40% in the US market year on year. The reason is that we have just at the tip of the iceberg, there is a huge potential which resides out there and there s a huge requirement because it's a very large county, highly industrialised and the potential is very high.

Kartik: I was also asking some thoughts on custom built versus standardise product?

Prayasvin Patel: The requirements are both but I would say that the custom built would have better prospects because the competition would be far less and we would find ourselves to be more competitive.

Kartik: In your assessment what would be your primary competitive advantage, assuming cost would be the primary driver in any case for someone in India. What else would you say your primary cost advantage?

Prayasvin Patel: The primary advantage is that, our product range is one of the largest you can find in anywhere in the world. We make from a pin to an elephant, as long as gears are concerned. So the advantage when you go to the client is that everything that he requires, he can get it from one source, that is one. Second thing is, that all our products lines that we have, we have tremendous amount of experience in those areas because in all our product line in India we are more or less number one, which means we have the highest sale in the country. So, that has given us a vast amount of experience. So, for any applications, we are able to find solutions for the client and therefore, the US clients become highly impressive that, we've understood the problem and we've given a solution which suits them and because we've given those solutions in the past of a similar kind, they feel fairly confident.

Kartik: Is there a risk at all that local manufacturing would be mandated in the US at any point in time, sir?

Prayasvin Patel: No, not at all.

Kartik: Secondly, sir, and I'll stop myself after this which is you spoke for about certain front end acquisitions I assume in Europe. Would these be small tickets like 1-2 millions or would you be larger in size? Just trying to think about, what kind of capital commitments would you have to make for these acquisitions? Would these be small acquisitions or large acquisitions? I'm just trying to understand some scale perspective.

Prayasvin Patel: They won't be a million or two because you can't buy a company in a million or two. But I would say it would be around 20 million kind of thing, by 100-200 crores company or 300 crores.

Kartik: And what do you get for that, sir, in return.

Prayasvin Patel: First of all you get an access to that market which is the most important thing and you get marketing manpower, as well as you get an advantage that you will be able to transfer a lot of the manufacturing to India.

Kartik: What would the scale current scale of operations for such a valuation be like?

Prayasvin Patel: It's difficult to say? It will depend on case to case basis.

Kartik: Right and are there technology gaps that you would also want to fill with this or would it be largely front end focused?

Prayasvin Patel: You should be proud to know that there are no technological gaps within Elecon we have over a period of time because we are continuously doing R&D, we are continuously evaluating ourselves and as I told you, we have one of the largest product lines that any company has. If you benchmark ourselves there is only one company in the world who has such a wide product range that we have and they don't do marine business. So what I'm trying to tell you is that we have everything under the sun which is available with us, it is up to date and it is the most want. So, there is nothing that we need to acquire from someone as a matter of fact, if we acquire even a European company, we can give them no harm.

Kartik: Last question please indulge me. Assuming that in the next 2-3 years time, the business grows to 2000 crores. Is there a chance at all that your assembly line is rusty because you're not used to that scale of operations?

Prayasvin Patel: See, it may be that we may have to change it but today we have the potential to design it ourselves and to take care of those requirements.

Kartik: Wonderful to hear your comments, sir. Thanks and very best wishes.

Binay Sarada: Thank you. I will now hand it over to the management for closing comments. Over to you sir.

Prayasvin Patel: Thank you. First of all, I need to thank all of you for showing large amount of interest in the company. All I can tell you is that we on the path of recovery, what has been stopping us from achieving in the past year, we have been able to overcome that. The inflows of orders have been healthy, our team is geared up to produce and meet with the targets on monthly and on a quarterly basis. Apart from that we believe that as soon as we are able to reduce and restructured the debt, the profits will be further accumulating and we would be able to show even better results. So the material handling problems that were there, we are able to slowly and gradually overcome those. And now I can say that hardly a small amount or let's say a small part of the tail is left out before it goes out of the door. Almost everything is taken care of and we see very healthy and god future. Thank you all and I wish you have a pleasant day.