2nd May, 2023

To,

The Manager (Listing), **The BSE Ltd.** **Mumbai**	The Manager (Listing), **National Stock Exchange of India Ltd.** **Mumbai**
Company's Scrip Code: 505700	Company's Scrip Code: ELECON

Sub : Transcript of the Investors Call held on 27th April, 2023

Ref : Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir,

With reference to the above referred Regulation and in continuation of our letter dated 21st April, 2023, please find attached herewith the transcript of the Investors Call held on 27th April, 2023 for Q4 of the Financial Year 2022-23.

The same is available on the website of the Company at https://www.elecon.com/investors/audio-video-recordings-and-transcripts-of-post-earnings-quarterly-calls

You are requested to take the same on your records.

Thanking you.

Yours faithfully,
For Elecon Engineering Company Limited,

BHARTIBEN LALITKUMAR ISARANI

Digitally signed by BHARTIBEN LALITKUMAR ISARANI
DN: c=IN, o=Personal, postalCode=388001, st=Gujarat, serialNumber=F4C51B6318E6ACAB9D278CCF2D6CA7B880331CFFA3DA32BEF38E61C2C76BC835, cn=BHARTIBEN LALITKUMAR ISARANI
Date: 2023.05.02 18:33:24 +05'30'

Elecon Engineering Company Limited
V.V. NAGAR

Bharti Isarani
Company Secretary & Compliance Officer

Encl.: As above

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“Elecon Engineering Company Limited
Q4 FY ‘23 Earnings Conference Call”
April 27, 2023

MANAGEMENT OF ELECON ENGINEERING COMPANY LIMITED :	**- MR. PRAYASVIN PATEL – CHAIRMAN AND MANAGING DIRECTOR** **- MR. AAYUSH SHAH – NON-EXECUTIVE DIRECTOR** **- MR. KAMLESH SHAH – GROUP CHIEF FINANCIAL OFFICER** **- MR. NARASIMHAN RAGHUNATHAN – CHIEF FINANCIAL OFFICER** **- MR. M. M. NANDA – HEAD (GEAR DIVISION)** **- MR. P. K. BHASIN – HEAD (MHE DIVISION)** **- MR. VRAJLAL SENJALIYA – HEAD OF RESEARCH & DEVELOPMENT DEPARTMENT**

MODERATOR: **MR. BINAY SARDA – ERNST & YOUNG**

Moderator: Ladies and gentlemen, good day, and welcome to Elecon Engineering Company Limited Q4 FY’23 Earnings Conference Call. 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 star then zero on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sarda from Ernst Young, LLP. Thank you, and over to you, sir.

Binay Sarda: Thank you, Vivian. Good day to all the participants on the call, and thanks for joining this Q4 and full year FY'23 earnings call for Elecon Engineering. Please note that we have mailed out the results and presentation, and you can also see the results on our website as well as it is uploaded on the stock exchanges. In case if you have not the same, you can write to us, and we'll 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 risk that could cause future results 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. Aayush Shah, Non-Executive Director; Mr. Kamlesh Shah, Group CFO; Mr. Narasimhan Raghunathan, CFO; Mr. M.M. Nanda, Head of Gear Division; Mr. P. K. Bhasin, Head of MHE Division and Mr. Vrajlal Senjaliya, Head of R&D Department. We'll have the management give a brief overview of the quarter one past and then we'll open the floor to Q&A session. With that said, I'll now hand over the call to Mr. Prayasvin Patel, over to you, sir.

Prayasvin Patel: Thank you. Good evening, everyone. A very warm welcome to our Q4 and full year FY 2023 conference call. I hope all of you have had a chance to go through our results and presentation. We are pleased to report that we have achieved another quarter of strong financial performance, driven by our team's dedication and hard work and we expect the growth momentum to sustain in the coming years. As we look forward towards the future, the global economy continues to face some uncertainties and challenges in the form of inflation and supply chain disruptions. However, we remain confident in our ability to navigate these challenges and continue to deliver value to our customers and investors.

Looking specifically at India, we are optimistic about the country's economic growth prospects for FY'24. According to RBI estimates, India's GDP is expected to grow at 6.5% driven by favorable government policies, strong domestic demand, huge spending in infrastructure spelt out in recent budget, better tax collection and a rebound in exports. We are well positioned to capitalize on these opportunities and are committed to drive in long-term sustainable growth for our stakeholders and retain our consolidated revenue target of INR 2,000 crores with EBITDA at 22% for FY '24.

Now coming to our new product development initiatives. Our primary objective is to generate innovative ideas that satisfy our customers' needs while optimizing cost and enhancing product performance. In FY'23, we made significant strides in new product development and upgradation, introducing six products that include high-speed gear boxes, central drive planetary gear boxes, roller press gearboxes, vertical roller mill gearboxes, dual tandem gearboxes and sugar planetary gearboxes.

Our efforts have been met with satisfaction, and we are proud to continue pushing the boundaries of innovation. We recently launched the second generation of EON Series which is designed for the use in a range of industries, including steel, power, chemical, oil and gas, rubber and plastics material and mining, paper and pulp, industrial cranes and water treatment. These EON series will be beneficial for our customers considering operational cost optimization and for the company considering inventory optimization due to standardization, faster deliveries to cater to exports and urgent need of customers.

The government's growing attention towards infrastructure is expected to stimulate the capex cycle in cement and steel sectors, thus benefiting our company. Our focus moving forward is to maintain engagement with OEMs in the Western countries market, particularly focus on European market and establish ourselves as their preferred supplier. Inflation and supply chain issues in the European market is posing serious challenge and sustainability issues to the local players and it puts us in an advantageous position to capitalize on this opportunity.

Elecon is proud to be a leader in customized and complex gear manufacturing segment for defence particularly for the Indian Navy. This is a testament of our technological and manufacturing prowess. With our expertise in working with high precision machine tools, we are actively seeking out niche areas that demand specialized equipment or components.

The strategic initiatives undertaken by our company have led to a remarkable turnaround in the Material Handling business, resulting in profitability after struggling for over five years. The strong order inquiries have translated into robust order book for the division, driven by the placement and upgradation requirements as well as new orders from power and other end user industries. Our extensive product range is one of the widest in the market, and we plan to introduce a few more products to cater to industries where we are not currently present. Given the visibility and momentum of new projects, we believe that there is a significant potential for growth in the division while maintaining healthy margins.

Last but not the least, our unwavering dedication to ESG continues to be our top priority as we strive to make a positive impact on all our stakeholders. ESG initiatives remain at the forefront of our company's agenda, and we remain committed to engaging in sustainable business practices that benefit not only the environment but also our communities and employees. Thank you for your continued support as we work towards a better tomorrow. Thank you.

Moderator: Sir, should we begin the question-and-answer session?

Prayasvin Patel: Yes, please.

Moderator: The first question is from the line of Ankit Babel from Subhkam Ventures. Kindly proceed.

Ankit Babel: Yes, good evening, sir. A couple of questions. Sir, you guys have been under discussion since the last several months with overseas OEMs for approval of the product. What is the current status? And by when can we expect one or two such approvals to come in?

Prayasvin Patel: Let me put it this way, that approvals for products in the foreign market is a constant thing because you are always looking for new customers. And for these new customers, you have to get various approvals. Normally, they look at your references and your past experiences before approval. And quite often, they send also the team to come and have a look at the manufacturing facilities and capabilities of the company. This is an ongoing thing. We've got many approvals apart from this because of our wide experience in India as well as abroad. It is very easy for us to normally get approvals of this kind with the customers. So, those approvals come in quite easily. And normally, it takes 15 to 20 days maximum to get those approvals.

Ankit Babel: Sir, my question was any major approval wherein the revenue visibility from a particular customer goes to say around INR 1,500 crores kind of a potential, those kind of approvals have you received?

Prayasvin Patel: Yes. Recently, we've had a significant approval from one of the large paper and pulp machinery manufacturer who is one of the largest in the world. So, that approval has come through from Europe. But apart from that, we are also supplying the equipment from India for their plants in the Asian region.

Ankit Babel: Okay. Sir, my second question is, was there any one-off expenses or any one-off income in your Q4 numbers?

Kamlesh Shah: Yes, we have that. In regard to raw material costs, we have a one-off kind of things related to GST input credit of our other states other than Gujarat where, our utilization is very slow and this is going to take some time. So, as a conservative approach, we have made a provision for INR7.28 crores, plus we are having nearly INR 2.5 crores of inventory required for the service and after-sale service requirement. So those inventories are having more than two years.

So as a conservative approach, considering the visibility, we have made the provision of INR 2.5 crores for that. So, that is the two things which is there for the raw material consumption. And in case of the manufacturing cost, we had some high-cost consumption of materials, which are having its own cycle like oil base frame, those kind of expenses which were incurred in Q4 this time, which will have its own cycle of replacement.

Ankit Babel: Okay. And any one-off incomes?

Kamlesh Shah: We have the income in case of the write back, which is there, which is to the tune of INR 2.6 crores, which was related to the liability of earlier period, which was not required. Then we were having another income in the form of a contractual obligation. As you know, we have closed all our old projects in MHE divisions. And for where we were having certain contractual obligation, provision we made as a conservative approach. That was not required any more. And plus some warranty was there. We completed the warranty period. So both put together is coming to nearly INR 8 crores plus.

Ankit Babel: Okay. Sir net-to-net, INR 10 crores of one-off expenses and INR 8 crores of one-off income. So net of INR2 crores of one-off expenses, is the right way to look at it?

Kamlesh Shah: Yes. And one more thing that we have made one-off kind of bad debt of nearly INR 4.28 crores this year, this is a part of our settlement agreement with one of the customers, which we recently did in Q4. So that is INR 4.28 crores.

Ankit Babel: Sir, INR 4.28 crores is bad debts?

Kamlesh Shah: Bad debts. One of the bad debts are part of the settlement agreement with the customer.

Ankit Babel: Okay. So INR 6.5 crores net debt is the one-off expenses?

Kamlesh Shah: Correct.

Ankit Babel: Okay. I'll get back in the queue, sir. Thank you.

Moderator: Thank you. The next question is from the line of Gunjan Kabra from Niveshaay. Kindly proceed.

Gunjan Kabra: Congratulations for a good set of numbers, sir. I had one question. In the presentation you have guided around revenue guidance, which is INR 1,700 crores. And in the bar graph just below it, it's INR 2,000 crores of revenue that we are targeting in FY'24. So what kind of revenue like in the last three quarter, we were of the very firm believe that we'll be touching INR 2,000 crores. So are we seeing any kind of slow growth rate?

Kamlesh Shah: No. I think if you refer that presentation, that presentation speaks about the gear for INR 1,700 crores. And INR 300 crores MHE. So, if you have referred our presentation, the left-hand side, the gear sign is there, MHE is above, on the top. So MHE is different and gear is different. This INR 1,700 crores, what you talk about is gear only. So, INR 1,700 plus INR 300 turns out to be INR 2,000.

Gunjan Kabra: So, we are still maintaining our growth guidance of INR 2,000 crores?

Kamlesh Shah: Yes.

Gunjan Kabra: Also one thing, is that in the beginning of the right now the beginning of the presentation, you guided there is an export headwind due to supply chain disruption. But in the recent interview that you did yesterday. So, there you guided the export percentage is expected to increase to 40%. So are we planning to gain any shares? Or how is it, I mean, how are you seeing the demand there?

Prayasvin Patel: See what we are trying to say is that the Europeans are having these challenges while we don't have these challenges. So we are likely to grow while they are likely to remain stagnant. So, we have an opportunity. We are going to grow from 30% to 40%, while we see opportunity situation in Europe.

Kamlesh Shah: And if I just further add to this. So, that you know, if you see our presentation, we are talking about two things. Our overseas business plus export, both put together is 29%. So, that is how we speak about our overseas business and exports. So, when we talk about export, export is our export from India as well as our overseas business, which is there.

Gunjan Kabra: Sir, good luck.

Kamlesh Shah: Thank you.

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique PMS. Kindly proceed.

Pratik Kothari: Hi. Good afternoon. And, first of all, congratulations to the team for such a fantastic performance. And my first question on the six new products which we have upgraded or released, as a layman, if you can just help us understand how does this new products help our clients, help our customers? How does it help Elecon, to some technical and market potential for these products, please?

Kamlesh Shah: So, Head of our R&D, Mr. Vrajlal, he will answer the question.

Vrajlal Senjaliya: Yes. Good evening. Just on producing the new product or introducing the new product in the market, we are constantly looking for the market requirement as well as from the customer point of view. So, nowadays, the efficiency is more important from the customer point of view. So, we are optimizing our product. We are always boosting or providing the high-efficiency product and the high-quality product. So, we are upgrading our product as well as we are encouraging the product to generate the new revenue.

Prayasvin Patel: Can I answer this in a different way? First of all, there are products which meet the requirements of the customer. And then there are new developments that take place because the processes of the plants go through a change. There are improvements in the process to bring in efficiency overall in manufacturing, let's say, cement, steel, etcetera. And for that, there are new applications that get generated. There also we get involved in new developments, which then are transferred to other customers in similar kind of businesses. So, these all products that have been developed recently will give additional opportunities to us in bringing down the cost in manufacturing for us as well as meeting the requirements of the customer. Optimizing is the way to go in this.

Pratik Kothari: Fair enough. Good to know, sir. So, my second question is on the MHE and I'm asking this in the context of recently ThyssenKrupp announcing or guiding for some 25% growth in the coming year, Indian Railway is talking about adding more wagon tipplers to their pipeline. Coal India wants to increase its production with 50% over the next two, three years. So, can this be a dark horse, and which can may be surprise us on the upside just your outlook on MHE. And given the bad experience that we have had for the last 5-10 years, are we prepared if such opportunity comes in for us to capture?

Prayasvin Patel: Definitely. As a matter of fact, we are sharpening our claws to make a kill. So, we are definitely looking at these opportunities. While we sell our products, we want to make sure that we don't let any opportunities go by where we can manufacture and deliver things where we can make profits.

Pratik Kothari: Thank you and all the best.

Prayasvin Patel: Thank you.

Moderator: Thank you. The next question is from the line of Shikha from Equity Capital. Kindly proceed.

Shikha: Good afternoon sir. Congratulations on increased set of numbers. I have a few questions. I had a few bookkeeping questions, sir. One of the follow-up to what you already said about the one-off expenses on the gross profit side. So, is that the only reason for an increase in our cost of goods? Or is there any other reason because quarter-on-quarter it's gone from 44% to around 50%

Prayasvin Patel: Yes. That is only cost for this year when you see the reduction in the gross margin.

Shikha: So that is the only reason for the reduction of the cost. Right?

Prayasvin Patel: Yes.

Shikha: Sir, on the employee cost, is there anything specific why our employee costs have come down so substantially quarter-on-quarter and even year-on-year?

Kamlesh Shah: Yes. The reason is one, because when we are making a provision on a quarter-on-quarter basis for gratuity and leave encashment that we are doing the estimate based on the previous year. And whatever the increment of the appraisal process, taken care for the current year. But while we did the actual valuation at the end of the year, then we find that instead of having the liability we are generating asset for a gratuity and leave encashment. So, if you could refer our balance sheet in that the provision for gratuity last year was there, this year instead of having the provision or liability, it is an asset for us.

So, that is a one of the reasons, which you know, both put together is coming to nearly INR 1.87 crores. And then we generally are doing the provision for the performance bonus on a quarter-on-quarter basis. But when we work out at the end of the year, so that was not work out to that level. And that is also having the impact of nearly INR 1 crore for that. So, both put together is coming to near to INR 2.87 crores rounding up to INR 3 crores for this.

Shikha: Okay. Understood. And sir, if I could just push in one another question. Can you give me utilization levels on the MHE among the gear currently business currently for the year?

Prayasvin Patel: So our utilization for gear is 70% plus, capacity utilization. And MHE we have ample space available for the capacity to utilize so that have been presently considered in our strategy. So we are at least at present our utilization is nearly 30% to 40%.

Shikha: Okay. But sir, without any major capex coming this year, how do you expect to do 1700 on the gear side?

Kamlesh Shah: So far as the capex is concerned, we have to build some of the machines because all the machines do not have the same capacity of manufacturing. So, we may not have to do major capex, but somewhere we have to fill the gap for the machine's capacity or cooling capacity. So if you have, if you have heard our earlier calls, this year, we are planning to have the capex of nearly INR 100 crores. And that is what we have planned over the period of two years. Based on the revenue visibility and other processes, we are just, to do the execution of this capex part.

Shikha: But the INR 100 crores capex will come in FY '25 onwards, right? Or will that start showing up in FY '24 itself?

Kamlesh Shah: It will be there in this year also. That is the new year to 2023-2024.

Shikha: Okay. So how much will be visible in FY24?

Kamlesh Shah: In FY24, we are estimating that capex of nearly INR 50 crores to INR 60 crores.

Shikha: Okay. And this will be again utilized in FY ’24?

Kamlesh Shah: No it will get utilized from FY ’25 because in FY ’24, we will install the machines, but the full utilization will be in the next year, FY ’25.

Shikha: Okay. And on our current machinery, we can utilize how much capacity at max?

Kamlesh Shah: Generally, we can go up to 85% to 90%, not beyond that because something will not be always, we can ask to the maximize, but we can optimize upto 85% ideally.

Shikha: And on that capacity around 90% capacity how much revenue does it turn out to be?

Kamlesh Shah: We can generate another, suppose if today, we are INR 1,000 crores, then we can additionally generate another INR 300 crores for that. And if you do some more optimization by outsourcing some of the activities, we can go up to INR 1,400 crores to INR 1,500 crores.

Shikha: Okay. But sir on a gear business the same way to 1,700, so the balance will come from there than overseas? Is it? Or how will that be?

Kamlesh Shah: Pardon me. I can’t get your question, please.

Shikha: So, on our current capacity, you said by outsourcing and certain debottlenecking or whatever we can be around 1,500. So the balance 200 that we’re expecting on our gear business from where will that?

Kamlesh Shah: I said our overseas are self-sufficient to do the assembly work and other ways.

Shikha: Okay. So 200-300 on the gear business, you’re expecting overseas, right?

Kamlesh Shah: That 1,500 what we are talking, that we are talking about gear.

Shikha: Okay, got it. Understood. Thank you.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique PMS. Can you proceed?

Sunil Kothari: Congrats Prayasvin and team for such a good number.

Prayasvin Patel: Thank you.

Sunil Kothari: I welcome Aayushbhai on the board and on call also. Sir, my question to Prayasvinbhai is during last two, three, four years, we, whatever problem we were facing, during the last one decade, we are successfully and very successfully completed all the achievements and goals we were having like loss-making projects were removed, debt has been reduced and almost we are cash positive. So what is your overall objective for next one to three years? Where you feel internally you can improve or where you feel your time you'll be devoting for Elecon Engineering where you feel, it's prepared for may be next five, seven years?

Prayasvin Patel: It's a very good question because I would have expected this from at least investors who are planning to be with us on a long-term basis. The interesting part is that now that we have achieved more or less all our goals, our intention would be to develop certain products, which today, we are not there. Though we have one of the widest range of products in the gear industry. There are a few products which are missing, which I believe we should develop them. That is one. The other one would be to look for opportunities abroad for further growing our businesses because we should not be a domestic player.

We now need to be a global player, a global player who has presence in very many countries because that is the way to go. And that is the way to hedge against a recession, which could be limited to a particular country. So, the intention would be that you expand or grow in countries where you see high potential. I would say that Europe and the United States are areas where we need to look for other opportunities and grow our businesses. So, look for acquisitions, look for strategic tie-ups and so forth because we would like to grow. And grow at a reasonably good rate. Sunil does that answer your question?

Sunil Kothari: Yes. Sir, so where you feel for preparing for those opportunities, what we required to do internally, may be in some of R&D division, design department, assets, software side, hardware side. Which are the areas where you feel you require to invest and increase those capabilities?

Prayasvin Patel: Basically, I would put it this way that as long as R&D is concerned, we are very well equipped. As a matter of fact, technologically, we are so advanced that we can sell technology to other countries, even in Europe and United States. Okay. So competency wise, we are, I would say, second to none. As long as the challenges that we would come across would be manpower of our own, which would be at the senior level as well as competent people in manufacturing and in financial services.

Sunil Kothari: So, this will be a focus area of yours?

Prayasvin Patel: Yes. And those are the areas where we are trying to develop a team which would be ready in case there are opportunities that would arise, then we will deploy them in the international arena wherever there is a need.

Sunil Kothari: Wish you good luck. And thank you very much.

Prayasvin Patel: Thank you.

Moderator: Thank you. The next question is from the line of Naysar Parikh from Native Capital. Kindly proceed.

Naysar Parikh: Yes, hi, thanks for the opportunity. Sir, first question is on the replacement market or the aftermarket, on the aftermarket side. So, what percentage would be aftermarket for you? And secondly, when you look at your, how much of that is actually new customers, new installations versus replacement of some of the older gears?

Prayasvin Patel: Normally, our replacement market constitutes anywhere between 20% to 30%. The new customers, I would put it this way that almost 70% of our customers are repeated customers. But there is always a hunt to look for new opportunities, new customers to bring them in our fold even to bring the competitors' customers into our fold so that we can grow our business.

Naysar Parikh: Got it. Understood. And on the replacement side, right, you track, so say if you sold 100 gears and 100 are getting replaced this year, out of that, how much actually came to you versus how much went to competition? Like what percentage is your repeat rate or something on things that are getting replaced.

Prayasvin Patel: Normally, 90% of the customers who have occasionally bought the gearbox from Elecon would come back to Elecon. 90%, Maybe more than 90%, 95% of them would be coming back to the same manufacturer because there are peculiarities. And therefore, installation is very critical, he will not take any chances. It is the same as in automobile, you normally go back to the manufacturer to buy the spare parts, something similar to that.

Naysar Parikh: Got it. And last question, just on the, you mentioned on the marine side as well as on the EV side that you know, obviously discussions are going on and things like that. So, any update on those two verticals?

Prayasvin Patel: Yes, on the marine side, we've had some opportunities that we have been able to harness in Europe where there are companies who want to get their products manufactured by us. We've developed a few models for them, and they seem to be highly pleased and the opportunities look to be promising. However, on the domestic front also, we see a good opportunity coming our way. Even on the defense side, the Indian Navy intends to reorder certain ships identical or similar to the ones that have been supplied in the past, where we would become the preferred gearbox supplier. So, the opportunity seems to be quite high. However as long as the commercial ships are concerned, as I told you, it is getting materialized as long as Navy is concerned, it may take some time before it actually comes up.

Naysar Parikh: Anything on EV?

Prayasvin Patel: Okay. Sorry, I'm sorry, can you please repeat that sentence?

Naysar Parikh: Sorry, I was saying anything on EV, the EV side?

Prayasvin Patel: EV side? Not really because though we have been trying to make inroads. The sizes seem to be a bit smaller for us. considering that they we want to manufacture them in mass scale, the size, we normally produce much larger diameter of gears compared to what they would require.

Naysar Parikh: Okay. Thank you so much.

Prayasvin Patel: Thank you.

Moderator: Thank you. The next question is from the line of Mahesh Bendre from LIC Mutual Fund. Kindly proceed.

Mahesh Bendre: Thank you so much for the opportunity. So, this year, we have done revenue of around INR1,500 crores. And next year, we are talking about INR2,000 crores. So, incrementally INR500 crores of revenue, I mean, from where we plan to add this, is it domestic market, international market, so just a broad view?

Prayasvin Patel: Naturally, it is going to come from both. The domestic market is where we see that the power sector will give us reasonably good orders because there are new requirements that had come up project orders, which would help us boost our turnover to a large extent as well as exports would also give us a big thrust in the foreign markets further.

Mahesh Bendre: So these orders are in hand or probably we think we will get these orders in this quarter or next quarter?

Prayasvin Patel: These orders are not in hand, but we are a preferred supplier to the clients who have got these orders. Which means the companies who have got these orders. For them, we are one of the preferred suppliers, and we have supplied them similar kind of gearboxes in the past. And they seem to be extremely happy with our delivery and performance of the gear units. And therefore, we feel very strongly that they would be finalized in our favor.

Mahesh Bendre: Sure, sir. Thank you so much, sir.

Moderator: Thank you. The next question is from the line of Divyesh Mehta from Dinero Capital. Kindly proceed.

Divyesh Mehta: Thanks for the opportunity. So just wanted to understand, since we have launched six new products, so we have two categories of products like catalogue division also and in engineer division. Engineer division is around 55% to 60% of our overall sales and which are high-margin products. So, sir, can you help us to understand six new products falls into which category?

Prayasvin Patel: They fall into both categories. The EON series is the catalog products, while all the others fall into the specialized product category.

Divyesh Mehta: Okay. And sir, one more thing I wanted to understand. Since, we are entering into all these new products. So, our competitors like Shanthi Gears, Flender, SEW, Premium, all these companies, they are already there into these categories, we are going into completely a different new set of products.

Prayasvin Patel: Unfortunately, as I told you earlier, we have one of the widest range. Yes, they are all into catalog gears for sure. But we have a high level of specialization like the vertical roller mill gearboxes, we are only competing with Flender. Then the dual gearboxes, we only compete with Flender. So, there are planetary gear boxes, we only compete with Premium. So, though we are there in each and every type and variety. Our competition quite often is limited to one or two. And they need not be the same party all the time. And we also are focusing a lot on import substitution, and we make gearboxes, which quite often are not possible for the other manufacturers to manufacture.

Divyesh Mehta: Okay. So, that falls into the engineered products. So what we are looking into the OEM tiers in the overseas market, that would be mainly into the engineered products.

Prayasvin Patel: Yes.

Divyesh Mehta: Okay. And sir, one last question. Can you help me to understand the sector-wise sales in this last quarter? So, how we have pan out in terms of power, cement, steel, sugar?

Kamlesh Shah: So, last quarter, we don't have to see the sector-wise sales, but I think I'll keep a note of that and forward through Binay for this.

Kamlesh Shah: We have this for the whole year.

Divyesh Mehta: Okay. So can you help me with that figure also that's fine.

Kamlesh Shah: Yes. At the consol level, if you see in the gear, we have one of the major contributor was steel from where we got a 13.8% sales from sugar 6.8%, cement, 9.7%, power 8.1%. MHE equipment 7% and the mining was at 3.7%.

Divyesh Mehta: Okay. Thank you, sir. That's it from my side.

Prayasvin Patel: We will send you a pie chart if required by email. It is there is a presentation also.

Divyesh Mehta: Okay. Okay. Thank you.

Moderator: The next question is from the line of Sonali Shah from Emkay Investment Managers.

Sonali Shah: Yes, hi. Thank you for the opportunity. Sir, first question is our order book for the gears division has been flat since the last three quarters or so. Is there some kind of challenge in getting new orders, incremental orders over year? And what seems to be giving us the confidence since the order book is not growing, what is giving us the confidence of achieving INR1,700 crores of top line for gears in FY '24?

Prayasvin Patel: Madam. I don't understand how you are saying it is flat? Because if the orders are not there, how are we going to produce so much.

Sonali Shah: I just made in the perspective that our closing order books of F23 by INR570 crores for gears division. And at the beginning of the year it was around INR500-odd crores.

Prayasvin Patel: The reason is normally we have a very fast turnaround. So, the float that we see of INR500 crores, INR569 crores is a very healthy float. Because you don't want too many because if the prices of steel keep on varying then you have a risk of increasing your COGS. On the other hand, you don't want less number of orders, so because then you can't plan your production properly. So, this is an ideal set and which suits us well. So in our catalog product, Mr. Nanda will say, our Head of gears.

M.M. Nanda: In the catalogue product, we are able to deliver within two weeks' time, basically. That also is a major change which has really brought in our catalog area basically. So, that has a turnaround very fast enough. So, that's why you are looking at these numbers, wavering on that. That's how it is. But as chairman has mentioned, our order book position at the end of the year is very healthy. And going forward, we should have, will continue on the same line.

Sonali Shah: All right, sir. Fair enough. And second is actually more of a clarification. If I were to really back calculate the numbers of INR2,000 crores. So for our gear position in the domestic business ex of exports, are we expecting only INR900 crores of top line for F'24, which is nearly a 3% Y-O-Y growth.

Kamlesh Shah : No. How you calculate, I don't know from where you got a number. Our projection for gear is INR1,700 crores.

Sonali Shah: Yes, INR 1700 crores would be inclusive by overseas subsidiary for gears as well as by exports, right?

Kamlesh Shah: Yes, correct.

Sonali Shah: So, if I recollect correctly, you had mentioned a few quarters back in one of the con calls, that we'll be doing around INR1,500 crores of top line in a stand-alone level in FY24 and INR500 crores at a consol level, sorry, so that's INR2,000 crores.

Kamlesh Shah: Yes, that INR1,500 crores includes MHE divisions.

Sonali Shah: Yes. So if I was to skip away the MHE division.

Kamlesh Shah: Then it is INR1,200 crores.

Sonali Shah: Yes. And then if I account for, because you also mentioned that exports such overseas will end up going to around 40% in F '24. So, if I skip that over, I'll end up with only INR900 crores of top line for the domestic gear division.

Kamlesh Shah: For this year or next year, you are talking about.

Sonali Shah: For FY '24.

Kamlesh Shah: No, FY '24, we are going to end up our gear at INR1,200 crores on a stand-alone basis.

Sonali Shah: Stand alone, that exports plus my domestic in India business, correct?

Kamlesh Shah: Yes, correct. Correct.

Sonali Shah: All right. Thank you so much, sir.

Moderator: Thank you. The next question is from the line of Mohit Kumar from ICICI Securities. Kindly proceed.

Mohit Kumar: Good evening, sir. And congratulations on a very good quarter and a fantastic year.

Moderator: Mr. Kumar, sorry to interrupt, sir can't hear you clearly.

Mohit Kumar: Is there any opportunity in the adjacent product segment or to enter in the new customer segment? Do you think the wind and power segment will pick up in FY '24 and FY '25 materially for you?

Prayasvin Patel: Power segment, yes. In the wind segment, we have purposely exited from that area and the reason being that it is a very risky business. Therefore, after indulging into it, we ultimately decided that we wanted to exit that business, and we have been able to do so, without getting ourselves hurt.

Mohit Kumar: I'm asking this question because wind is likely to pick up going forward. So, I'm trying to figure out whether this is a very large opportunity? Or do you like to re-enter the segment?

Prayasvin Patel: We would not like to re-enter the segment. The reason being that, you know, first of all, wind is subsidized by the government. Because on its own, it is not able to hold ground unless it is subsidized. And it depends on the government policies. Apart from that, we have seen why fluctuations in demand which also causes a lot of issues.

Mohit Kumar: Understood. Sir, my second question, what was the total market size for the gear in FY '23? And what was the market share? And the related question is that how much is the import of gears in the domestic market, if you have that number ready?

Prayasvin Patel: Can we send it to you by e-mail?

Mohit Kumar: Sure, sir. Those are my two questions, sir. Thank you.

Prayasvin Patel: All I can say is that we have ~34% of the organized market in India. Okay. So, if you extrapolate, you will know that how much is the overall organized market in India. And the import figures, we do not have handy, but one can always pull them out and send it to you.

Mohit Kumar: But sir, is it possible to substitute this entirely in this country? Or do you think that import basket, large part will still be imported?

Prayasvin Patel: I would say that a very large part is being imported. Majority of the parts which are being, are, majority of the gearboxes, which are being imported are the wind turbine gearboxes. As well as extremely large cement gear units, which are being imported.

Mohit Kumar: Understood, sir. Thank you. And best of luck. Thank you.

Prayasvin Patel: Thank you.

Moderator: Thank you. The next question is from the line of Ankur Kumar from Alpha Capital. Kindly proceed.

Ankur Kumar: Hello, sir. Congrats on a very good set of numbers. Sir, my first question is on the capital allocation plan. So we are now debt free. We are making great cash flow from operations. We don't have much capex plans also for the next two years. So, but this year, you haven't given much dividend. So, any thoughts on do you want to increase dividend or we look for some M&A for the growth in exports.

Prayasvin Patel: I thought that we gave good dividends. 100% is not a good dividend.

Ankur Kumar: Sir, I mean, in terms of dividend payout ratio, so somewhere to EPS.

Prayasvin Patel: That's good. See, I would put it this way though to me, being one of the largest shareholders, we believe in being a bit conservative because what we believe is that the company retains cash, then if there are other opportunities that come their way, then we would be able to deploy them whether it is any type of requirements in an urgency or on a normal level. So, that is the reason why we are going a bit slow. But I'm sure that we will fall in line and improve our dividend payout ratio over a period of time.

Ankur Kumar: Sure, sir. That's great to know. And sir, second question is on the guidance of INR2,000 crores revenue. This basically means INR500 crores per quarter. But in this year, we haven't done INR500 crores in any of the quarters, even in, not in our best quarter. So, do you think this INR500 crores can be equally distributed over the next year? Or do you think this will be H2 heavy and that things will improve much faster in H2?

Prayasvin Patel: It will catch momentum over a period of time. So, I believe that you will start seeing the improvements after the first or after 1.5 quarters.

Ankur Kumar: Because, sir, in generally, you were saying that Q2 and Q4 are heavy. So that is like will continue in FY '24 also?

Prayasvin Patel: Yes. Normally, it is like the IPL always the last few overs are very critical.

Ankur Kumar: Sure, sir. And sir, on margin, can we make some improvements? Or do you think this 22% will sustain? Or can we improve because now things are looking up?

Prayasvin Patel: Margins will hover around 22%. I mean, if they increase, they will increase by one or two points maximum. The reason being, that why you keep on trying to improve your top line? The utilization benefits have already been derived. Plus it will also depend on the product mix.

Ankur Kumar: Sure, sir. Thank you, and all the best.

Prayasvin Patel: The other thing is we, sorry, okay.

Moderator: Thank you. The next question is from the line of Vikram Datwani from Nuvama Wealth Management. Kindly proceed

Vikram Datwani: Good evening, and congratulations on a strong quarter. I have two questions. First one is a data point with a follow-up. Could you please share the subsidiary order inflow number for the quarter. As in the last quarter, we mentioned due to the holiday period, we saw lesser order booking than we would have liked. So, has that situation improved?

Kamlesh Shah: Yes. Our overseas order pending order portion and March 31st, it is INR80 crores we got that.

Vikram Datwani: Okay. Thank you. And my second question is on the margins in the subsidiary business. So, if I look at the margins in this quarter, it seems like they took a slight dip. So, how should we look at this going forward? Was there any onetime costs related to ramping up of operations that impacted margins this quarter?

Kamlesh Shah: No, it is not because of any onetime cost in the overseas market, there is nothing such kind of things. But if you have heard that in overseas market, the inflation has gone up. So certain cost has also gone up in the process, which is very minimal. And at the same time, there were also challenges in the European countries. So considering that, we were having this. And further, we had some business development costs also over there. And we have put some marketing team. We started building a marketing team in the overseas. So, that is just having the impact to this in the overseas.

Vikram Datwani: So do we see this margin normalizing going forward at what percent would you say?

Kamlesh Shah: Next year, our guidance is 22% because we are now going for, on a business development and the marketing strategy, and what is where we have to spend. We also have to depute some key employees over there. to ascertain new opportunities and new markets. So, we also have some costs related to the employees in current year FY '23-'24 for that. So going forward, Yes, definitely once we get stabilized in terms of our efforts for marketing we can expect that improvement in the margin. However, because we are looking for the OEM supplies going forward. So, OEM will not have the same margin growth generally, we are looking for in the replacement market. So, it will not have that kind of the improvement based on the improvement in the sales. That's what I can say here.

Vikram Datwani: Okay. Thank you for taking my question, and all the best.

Kamlesh Shah: Thank you.

Moderator: Thank you. The next question is from the line of Riya from Aequitas Investment. Kindly proceed.

Riya Mehta: My first question is in regard to the current pipeline, what is the order backlog and what is the order inflows right now?

Kamlesh Shah: Order backlog as of 31st March 2023 is INR714 crores on a consol level.

Riya Mehta: And for subsidiary?

Kamlesh Shah: For subsidiary, it is INR80 crores.

Riya Mehta: And order inflow for the quarter?

Kamlesh Shah: Order inflow for the quarter, for the consol level, it is INR419 crores.

Riya Mehta: And could you help me with sector this order book comprises of, apart from, I think steel and power being the major contributor, what other sectors are there?

Kamlesh Shah: Sugar is one of them. So, I don't have the complete breakup, but I can give that the major order from the steel, cement, sugar, material handling these are and in power. These are the five sectors where it is there. But what I can, I'll just forward that order intake for Q4 on a sector-wise also I can forward that.

Riya Mehta: And in terms of pipeline, are we seeing it from the same sector. Or any newer sectors?

M.M. Nanda: Same thing should continue. The same trend should continue the way scenarios are emerging the order inflow will be coming from these sectors only which has been mentioned.

Kamlesh Shah :- For a quarter-on-quarter basis, fluctuation will be there based on how the cyclical of the industry trend it is.

Riya Mehta: Sure, Sir. Thank you. Thank you so much.

Moderator: Thank you. The next question is from the line of Devang Patel from Sameeksha Capital. Kindly proceed.

Devang Patel: Sir, on margin you mentioned some improvement can happen on the working capital also. If you can talk about how much improvement we can see we've seen some improvement this year. Over the next two, three years, what kind of improvement can we see in the cash conversion cycle?

Kamlesh Shah: So, for the working capital is concerned, we can transit between 70 to 80 days. Hovering about that considering the quarter-on-quarter basis. But I think consider engineering industry in which we are there, and other factors that 70 is an ideal thing, which can do. But at least optimizing if you are to optimize by that way, we can be between 70 to 80 anywhere.

Devang Patel: Okay. And in the INR2,000 crores consolidated revenue, how much is the revenue being generated from our overseas subsidiaries?

Kamlesh Shah: So overseas subsidiary here INR500 crores, we have given a guidance of INR1,500 crores as a standalone and INR500 crores on the overseas.

Devang Patel: So, that will imply a steep jump in revenue from them next year?

Kamlesh Shah: Yes, we are looking to some tractions also in the overseas. The way in which we are putting our efforts on the marketing side and business development side. We are looking for the good traction in the western countries.

Devang Patel: Okay. And you mentioned getting OEM orders, so this will be supplied from our India business or from the overseas subsidiaries?

Kamlesh Shah: Generally, all manufacturing will be taken care from India. And we may supply finished or it may be in the kit form, where they will do the assembly over there and then supply to the customer, depend upon what the requirement of the customer it is. But we are equipped with both the handouts.

Moderator: Thank you. The next question is from the line of Anish Jobalia from Girik Capital. Kindly proceed.

Anish Jobalia: Hi sir, Good Evening. Thank you for the opportunity. Congratulations for wonderful results. So, my question is around the tax rate. So, our tax rate has like been in the range of 20%-21%. So, I just want to understand like going forward with the increase in revenue from the international market, etcetera. Like how do you see the tax rate going forward? Or will it continue to be in this range?

Kamlesh Shah: That I can't project because if you see in UK, the tax rate has increased from 19% to 25%. So, that will depend. Next year it will not, it will be ranging between 21%-25%. At the console level, but at the standalone level, it will be 25% because we are in the new tax regime.

Anish Jobalia: Okay, sir. Thank you so much, for your time. This is the only question that I have.

Moderator: Thank you. The next question is from the line of Akash Vora from Praj Financials. Kindly proceed.

Akash Vora: Hi, sir. Just wanted to know what's our current capacity in gear division. And how do we plan to take forward from here because as we mentioned, we are already at around 70% utilization and at peak, we will be doing around 80%-85%, 85%-90%. So, how's the plan in gears division? How will we be expanding the capacities and what are our current capacities?

Prayasvin Patel: We normally have not explored to a large extent subcontracting. Subcontracting would give us additional capacities that would be available. There might be a requirement of certain key equipments, machine tools to be further invested in, in the near future as and when the requirement comes up. But I'm sure that with a minimum of investment, we would be able to up the capacity if required.

Akash Vora: What would be our current capacity in gears division, sir?

Prayasvin Patel: Right now, as you said, it is at 70% utilization. And we may require some bridging equipment or machine tools which we are planning to invest INR100 crores in the next two years, which would help us further enhance our capacities. But I would say the maximum we could go is 85% in-house and with subcontracting, it would be a sizable increase that would be possible.

Akash Vora: Thank you.

Moderator: The next question is from the line of Karthi from Suyash Advisors. Kindly proceed.

Karthi: Sir, good evening. Thanks very much for the very impressive commentary. I would like to engage you a bit on the comment you made about the pulp and paper machinery manufacturers whom you are in talks with. Just trying to understand the scope of this sort of an association. One is typically, you know, who would this be? So, it would be the OEMs themselves or would this be the, EPC, the engineer, for instance? How exactly would this arrangement work? Some clarity on that would help.

Prayasvin Patel: Basically, we would be supplying to OEMs who would supply an entire plant, a complete comprehensive plant for manufacturing paper from pulp.

Karthi: Right. And which would mean, what would be the scopes that, you know, say 2%-3% of a project cost could accrue to you? Effectively, I am trying to understand the number of gears that could go and the scope, the different types of gears that could go.

Prayasvin Patel: It is difficult to say because it will depend on what kind of plant, what type of paper, etcetera. So, it is difficult to comprehend. But we would be the sole supplier of gear machinery in that plant.

Karthi: Thank you.

Moderator: The next question is from the line of Niraj from White Pine Investment. Kindly proceed.

Niraj: Thank you for the opportunity. Just one, two questions. One on the Europe market. Can you give some color on your marketing efforts in the Europe and how they are picking up?

Prayasvin Patel: I am sorry, can you repeat the question? I didn't hear it.

Niraj: Sir, can you give some color on the marketing efforts that you are doing on the Europe side. And how do you see picking up and approval process, etcetera?

Prayasvin Patel: Basically what we are trying to do is we are trying to deploy more people in the marketing as well as we are also putting in a lot of effort to re-energize our websites, do digital marketing, do trade shows, etcetera. So, that there is a big trust, awareness and as I said, we are continuously knocking doors of OEMs and other customers from where we can get more business.

Niraj: Sir, but your estimates were showing that you will have a reasonable traction in the export. Also, in the past you had said that export does take 15 to 20 months for the traction to start. So is it fair to say that you have a reasonable understanding of how maybe six months you will start getting orders from the Europe side?

Prayasvin Patel: See this is based on estimates. It is very difficult to comprehend as to when you will get the breakthrough from a customer. It depends on various opportunities which are there, the orders that he has on hand, his requirements, how successful has been your competition in supplying equipments to them, etcetera. So, it is very difficult to comprehend. The intention of ours is to keep on pursuing till we find success.

Niraj: Thank you, sir, for this. Second question on the defense side. Can you give some color on when you see the order flow to start and when can large orders for the Indian defence come to you? Or when can the government start deciding on the large orders that may flow to you in future?

Prayasvin Patel: Well, as soon as China shakes us up, there will be more orders coming through. What I am trying to say is it is very difficult. You know, the defence sector or the defence ministry has its own processes. However, what we have found with this present government is that they are more dynamic and faster than the previous governments in, you know, ordering equipments. And therefore, we are hopeful that very soon we will end up with reasonable amount of orders. And of course, Make in India is something that is making us very proud of the present government.

Niraj: Thank you.

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

Prayasvin Patel: Well, thank you for showing great interest in our company. We have been trying to do our best. All I can say is that the economy is right now favoring us. We believe that the economy will grow at 6.5%, which will give us great opportunities for the gear sector as well as the material handling sector. And right now we are fully organized to encash the opportunities that come our way. On the other hand, the company is trying very hard to put the thrust in exports because that is where the future lies. And if the company has to grow and grow in a large way, we will have to go for additional exports. And that is where I would say the company needs to focus on, but not to neglect the domestic market.

So, this is what the strategy is. On the other hand, Elecon with a very strong R&D team has been able to develop various products and continuously is trying to upgrade its technology, upgrade its products, upgrade its manufacturing setup to be at the edge of technology. We are second to none. Today we are at a point where we can sell technology to the rest of the world. This has happened because we had a lot of experience, which has come our way because we are in a country where the population is very high and there are great opportunities that come in various fields of cement, steel, power.

All this has given us great amount of experience, great amount of visibility. And I am sure that going forward we will be able to do much better, not only in the domestic market, but also in the international market. So thank you all for being with us and we hope to see you on the next con call also. Thank you.

Moderator Thank you. On behalf of Elecon Engineering Company Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.