3rd February, 2023

To,

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

**Sub : Transcript of the Investors Call held on 30th January, 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 25th January, 2023, please find attached herewith the transcript of the Investors Call held on 30th January, 2023 for Q3 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

Elecon Engineering Company Limited
V.V. NAGAR

**Bharti Isarani**
**Company Secretary & Compliance Officer**

**Encl.:** As above

"Elecon Engineering Company Limited

Q3 FY23 Earnings Conference Call"

30th January, 2023

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| **Management of Elecon Engineering Company Limited** | **- MR. KAMLESH SHAH : GROUP CHIEF FINANCIAL OFFICER**<br>**- MR. NARASIMHAN RAGHUNATHAN:- CHIEF FINANCIAL OFFICER**<br>**- MR. M. M. NANDA, HEAD (GEAR DIVISION)**<br>**- MR. P. K. BHASIN, HEAD (MHE DIVISION)** |
| **MODERATOR: –** | **MR. BINAY SARDA, ERNST & YOUNG** |

**Moderator:** Ladies and gentlemen, good morning and welcome to Elecon Engineering Company Limited Q3 FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-mode only 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 phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Binay Sarda from Ernst & Young. Thank you, and over to you, sir.

**Binay Sarda:** Thank you, Michelle. Good morning to all the participants on the call and thanks for joining this Q3 FY23 earnings call for Elecon Engineering. Please note that we have mailed out the results and the presentation, as well it has been uploaded in the stock exchanges. In case if you have not received the same, you can write to us and we'll be happy to send it 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 our future results, performance or achievements 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. Kamlesh Shah, Group CFO; and Mr. Narasimhan Raghunathan, CFO. Mr. Kamlesh Shah will give a brief overview of the quarter gone past and then we'll open the floor to Q&A session.

With that said, I'll now hand over the call to Mr. Kamlesh Shah. Over to you, sir.

**Kamlesh Shah:** Thank you, Binay. Good morning, everyone. Ladies and gentlemen, a warm welcome to our Q3 FY23 conference call. I hope you all have had a chance to go through our results and presentation. We are pleased to report healthy financial performance during the quarter and we expect the growth momentum to sustain in the coming years.

The global economic activity is witnessing a downturn amidst high inflation and resulting tighter monetary policy due to Russia's invasion of Ukraine, which has led to increase in energy prices. Despite global economic slowdown, the Indian economy continues to show resilience to global shocks on the back of strong government capital spending and pickup in the manufacturing activity. World Bank has recently raised India's FY23 GDP forecast to 6.9% from 6.5% earlier, as the domestic economy is well positioned to weather global slowdown compared to most other emerging economies.

Nevertheless, we continue to monitor the external situation and have been taking appropriate measures to streamline our cost structure and mitigate the overall impact due to rise in input cost. Despite global economic headwinds, we remain confident of the growth prospects and retain our consolidated revenue target of this INR 2,000 crores by FY24.

Discussing the Q3 FY23 result at a standalone level, the total operating income increased by 63% Y-o-Y to INR 304 crores compared to INR 186 crores in the corresponding quarter of the previous year. The EBITDA on an absolute basis increased by 112% Y-o-Y to INR 71 crores as compared to INR 34 crores during the corresponding period of the previous year. This translates to EBITDA margin of 23.4% in Q3 FY23 compared to 18.1% in Q3 FY22. We closed this quarter with a net profit of INR 48 crores as compared to INR 16 crores during the corresponding period of the previous year, reflecting an increase of 206%.

Coming to consolidated financials of Q3 FY23. The operating revenues increased by 43% Y-o-Y to INR 389 crores as compared to INR 272 crores in Q3 FY22. EBITDA increased by 69% Y-o-Y to INR 89 crores versus INR 52 crores in Q3 FY22. The EBITDA margin stood at 22.8% in Q3 FY23 as against 19.2% in Q3 FY22. The consolidated profit after taxes increased by 99% to INR 63 crores for Q3 FY23 as compared to INR 32 crores in the corresponding period of previous year.

Return on equity increased to 20% in nine months FY23 compared to 14% in FY22 while return on capital employed increased to 23% in nine months FY23 compared to 18% in FY22. Current ratio improved to 2.1 in nine months FY23 compared to 1.6 in FY22. Net debt to equity has come down to zero, while working capital cycle has reduced to 81 days as compared to 91 days in FY22, due to our focused approach in bringing down receivables. We would like to inform you that the Company had a net cash position of INR 66 crores, and outstanding retention amount stood at INR 66 crores as on December 31, 2022.

Coming to the INR 60 crores-plus arbitration awards, customers have shown interest for amicable settlement, which is a positive development. We continued to witness healthy demand across our end users' industries despite headwinds in the global economy, which resulted in stronger order intake, worth INR 1,023 crores in the gear business and INR 177 crores in material handling business during the nine months FY23 at the consolidated level. As on December 31, 2022, orders on hand in the gear business is INR 563 crores and in the MHE business, the order on hand is INR 157 crores.

Now coming to the new product development initiatives, Elecon continues to widen its product portfolio by leveraging its unmatched technological know-how and R&D capabilities. We have designed and developed high-speed gearbox which finds its uses in steam turbine, compressor, and blower, and has a domestic market size of around INR 70 crores per annum. The Company has also enlarged its Planetary gearbox product portfolio and introduced Central Drive Planetary Gearbox for the cement industry, having domestic target market of around INR 50 crores per annum. We are pleased to announce that Elecon Engineering was awarded as one of the Top 10 gears and gearbox manufacturers by industry outlook for our unwavering focus and dedication to achieve excellence in quality and delivery.

We continue to explore opportunities to establish ourselves as a preferred supplier to OEMs in European market and invest in global brand building exercise. The Company will continue to focus on expanding its global footprint and enhance its market penetration in existing geographies, which is likely to increase our overseas revenue and result in the next leg of sustained growth for the Company. As such, we remain confident of increasing the share of overseas business revenues to 50% of the total revenue by FY30. Also, Elecon continues to strengthen its leadership position in the domestic market with its unwavering focus on new product development.

In line with our ESG commitment, 70% of the energy is currently generated from renewable sources and over 85% lighting sources have been converted to energy-efficient LED. Our facility comprises of around 4,000 square meter unused land which has been developed into a green belt area and the Company today boasts of 60% green campus. Among other environmental initiatives, the Company has reduced uses of wood by almost 40% by adopting nail-less packaging, employed rainwater harvesting solutions to conserve rainwater and built sewage treatment plants to reuse sewage water.

As part of social engagement, Elecon has been undertaking various health-related initiatives such as blood donation camps, health activities for community, Health Heart Walkathon and health and safety awareness programs in nearby villages. The Company continues to promote sports activities and provide necessary support to society by undertaking activities such as food distribution for needy, support to weaker sections of society, organizing education program, and initiative for special person.

Inclusiveness is the core of whatever we do, and the Company continues to promote sustainable supply chain and has been championing the cause through business partner meet, dealers and channel partner meet. We continue to build sustainable workforce by ensuring health, safety and empowerment of our employees, nurture leadership skills through our Leadership Development program and inculcate a culture of continuous learning.

With that, I thank you all for listening in and we will be happy to address your specific queries about the business going forward. Thank you.

**Moderator:** We have the first question from the line of Pratik Kothari from Unique Portfolio Managers.

**Pratik Kothari:** Sir, my first question is, in our MHE segment, the order inflow and order book seems to be going very strong. So some qualitative highlights if you can share?

**Kamlesh Shah:** Yes. I think this quarter we got a good inquiry, and we received an order also. And that will continue. But our focus is on supply of materials and after-sale services. These orders are all related to the supply of materials, mainly. There is no order related to the EPC work.

**Pratik Kothari:** In the presentation, we have mentioned about half of this inflow has come from power. So anything specific here?

**Kamlesh Shah:** We have Mr. Bhasin, who is heading our MHE Division, and we also have Mr. Nanda, who is heading our Gear Division. I think, Pratik, Mr. Bhasin will give an answer to this.

**Mr. P. K. Bhasin:** Yes. As you are aware that we are not taking any EPC contracts, so we are only engaged in supply of equipment. We also would be giving supervisory services. And in power, we have certain orders, which have come our way, that is taken in one or two wagon tippler orders.

**Kamlesh Shah:** So, actually we are having a dominating position in power sector, particularly for MHE division which is there. So as a part of the replacement and upgradation requirement of the customers from power sectors, these orders are there for us.

**Pratik Kothari:** Sir, this is not related to the three new thermal power plants which are yet to come up, which you have mentioned in the presentation? This has nothing to do with that. This is just a replacement of older power plant.

**Kamlesh Shah:** Correct.

**Pratik Kothari:** So this is an additional opportunity that we see? We have some inquiry pipeline, etcetera, for the new power plant?

**Kamlesh Shah:** Yes, it is there. So we are evaluating that -- all the inquiries and wherever, I think, we find suitable to -- as per what the present in our strategy it is there we are going to participate for that.

**Pratik Kothari:** And sir, given what your target that we have shared for next year of INR 2,000 crores. Just qualitatively how are we prepared to achieve this in terms of -- we did speak about new products that we have developed in terms of new geography, new clients. Anything that you can highlight how are we moving in that direction?

**Kamlesh Shah:** Yes. Mr. Nanda, from gear, who is heading the gear will just give an update for that also.

**M. M. Nanda:** Yes. Basically, we will be continuing our order intake from the core sectors where we are already very prominently working like steel, sugar, cement, power, more so on the FGDs where we are present. And selectively for our spare business also will be coming from the power sector as a matter of fact. Then material handling also. These are the area what we'll be looking for. Apart from that, we will be also targeting the new product, which has been highlighted already, mentioned by Kamlesh bhai in his opening remarks on that. And then, of course, we will be also focusing on marine business basically. We are developing some new prototypes to be ready for certain overseas who is sourcing it from us.

Apart from that, there are some projects that are also lined up from the Indian Navy, that also we are trying to target. So all this will be adding up to the numbers what has been projected as a matter of fact. Yes. And in addition to that, export also will be our focus area, which we are really going to look at it and we'll be looking at how we are going to do it. From OEM business, we'll be targeting more from here. That will also help us to really get more on that. Yes. Thank you. Anything else you want to know?

**Pratik Kothari:** Last thing on gears again. One, what was the export number this quarter? And second, the order inflow seems to have slowed a bit. We used do about INR 100 crores a month, INR 300 crores a quarter. Seems to have been down to about INR 200 crores on the standalone part. So anything to read into this?

**M. M. Nanda:** See, these numbers are not really as you already noticed, but we have a big plan as far as the exports are concerned. We are trying to deploy our own team out there at various locations. Apart from whatever we have, our entities there that is going to help us. But in addition to that, we also support them. Our own people are going to be positioned there at various locations. In addition to that, we are also targeting some segments like South Africa, as well as Australia where we see lot of potential. In South Africa, we are looking to position our own office as a matter of fact to really help us on that. We are already trying to take some help from Australia. So all this will be adding up. What action we have taken will really increase our numbers going forward on that.

**Pratik Kothari:** And what was the number this quarter?

**M. M. Nanda:** INR 30 crores.

**Moderator:** We have the next question from the line of Subham Agarwal from Aequitas Investments.

**Subham Agarwal:** Sir, my first question. So recently, two weeks back I think was a news from Railways that they will be ordering multiple wagon tipplers. So, sir, I wanted to know whether we will benefit out of this? And if so, what is the opportunity size because of this plan?

**Management:** This wagon tippler, Railways have come out with a new specification. Earlier specifications were very stringent, 140 ton each wagon tippler. Those wagon tipplers are not there in the market. Nobody manufactures, neither people can give the coal with that wagon. So they have revised the specification and it is aiding us. Whatever designs we have got, they will be getting the new specifications of the Railways.

**Kamlesh Shah:** So if any opportunities will come up from the wagon tippler from Railways that will definitely be under this revised norms. We find ourselves qualified for participating.

**Subham Agarwal:** So all-in-all, it's some time away before this opportunity comes in?

**Kamlesh Shah:** Yes.

**Subham Agarwal:** Sir, secondly, I wanted to have a clarification financial guidance where we have given for the consolidated number. So for the last quarter, we are giving EBITDA guidance of INR 84 crores, which is lower than what we have reported this quarter. So any specific reason why we are giving our guidance or tapering our guidance for the Q4?

**Kamlesh Shah:** Generally, this is an engineering sector and capital goods sector you can say, both mixed. So generally, Q1 and Q3 are comparatively lower because, in Q3, number of holidays are there in terms of Diwali and Christmas and somewhere they also are consuming their available leaves. So generally, if you see historically, the Q3 numbers are generally lower. But Q2 and Q4 are always healthy if we compare on a quarter-on-quarter basis also. We are confident that whatever the guidance we have given, that will be achievable for us.

**Subham Agarwal:** So that's why the question, because I think this page mentions Q4 guidance as INR 84 crores and our Q3 number EBITDA is INR 89 crores, and because historically Q4 has been a better quarter, I wanted to know why we are reducing our guidance for Q4?

**Kamlesh Shah:** We have maintained our guidance what we have given at the beginning of the year. Anything better will come, definitely it will get reflected on an actual basis.

**Subham Agarwal:** And sir, we have been investing a lot in overseas business. I think Mr. Nanda briefly touched upon. But I wanted to know if there is any breakthrough or any update that you would like to share in that we have already hired so many people overseas.

**M. M. Nanda:** See, all these actions which I just narrated will certainly bring result, but it's a bit premature as of now to really talk about it. As we really, once we start getting results on that, we'll certainly share with you on that.

**Kamlesh Shah:** Yes. I think we are seriously discussing with certain overseas customers who are OEMs also, but once it will get material then only it will make sense for us to talk anything about that.

**Moderator:** The next question is from the line of Himanshu Yadav from Nuvama Wealth Research.

**Himanshu Yadav:** Thank you, sir, and congratulations for a very good set of numbers. Two questions. One, if you can give the order book split further? I mean, Gear division, you said INR 563 crores. So how much of that is at the subsidiary level? Second, since that part of order book has remained relatively softer and MHE has seen good order accretion. So is it a quarterly thing? And do you expect gear book orders to remain strong in FY24 as well? Some color it on that.

And second question is, in terms of the high-speed gearbox, is it something similar to what Triveni Engineering makes? And is it the same market where we will be competing in?

**Kamlesh Shah:** I'll just give the numbers related to standalone open order book position. The rest of your questions will be taken care by Mr. Nanda. On a standalone basis, my open orders as of 31, December, in Gear division is INR 497 crores, and in MHE it is INR 157 crores.

**M. M. Nanda:** As for high-speed, you are right, this is identical to what, where Triveni is. But in addition to that, we are also focusing for overseas market as well in addition to the domestic. That's what we are really going to embark upon.

**Himanshu Yadav:** So, are we seeing any softness in order inquiries or some delay by customers in finalizing orders domestically in gear side?

**M. M. Nanda:** Yes. In fact, we are already talking to two parties as a matter of fact, based on which we really worked out all these plans as a matter of fact, where we have committed supply to be given to them. In addition to that, we are also exploring other opportunities also on that.

**Himanshu Yadav:** No, sir, I meant to understand, I mean, this softness in standalone gearbox order book, is it something which is a temporary quarterly thing and you expect it to bounce back, because we are maintaining our guidance of INR 2,000 crores, so some color on that side, please? This is my last question.

**M. M. Nanda:** Yes, definitely. There is some softness from the customer side. They are sitting on the order, waiting for some of the developments and based on that they are going to release the order. That is what it is. So far as the FY24 numbers are there, considering our focus, our strategy, we are quite sure and confident that we're going to achieve the INR 2,000 crores numbers what we are giving out.

**Moderator:** The next question is from the line of Anish from Girik Capital.

**Anish:** So my first question was on the gross margins, which we have achieved 48%, which is a very good amount, mainly last few quarters that we have seen. So if you could give some explanation on what led to this kind of a gross margin improvement? And how do you see this, let's say, for Q4 and the next year?

**Kamlesh Shah:** So earlier also — in the previous quarter also we think, earlier we are doing our pricing review on a yearly basis but considering all the uncertainties and the development on the global economies, we are continually reviewing our pricing and that is what is making us able to sustain this gross margin.

**Anish:** So, this 48% is pretty much sustainable for, Q4 and FY24 given your strategy around pricing?

**Kamlesh Shah:** Yes, it is. Generally, it is sustainable for us. But it may undergo change due to the product mix on a quarter-to-quarter basis, but on an annual basis, yes, it is sustainable for us.

**Anish:** And my second question, we are expecting close to 30% growth in FY24 on a consol. So what kind of visibility are you getting from customers in terms of being able to grow at similar rates even beyond '24, let's say, in FY25? So how do you expect the growth to pan out in FY25 given the capex cycle that has to come in?

**Kamlesh Shah:** So far the FY24 numbers are there; I think we have put our study upon that. We have also studied the market for this, considering that high inflation in the Western countries and the availability of the supply chain. These both are challenging over there. So under such circumstances, we are finding ourselves more comfortable and confident to enter into the OEM market, which we are looking for in Europe, and also further expanding our footprint in Mexico and other part of Southern America and Canada, based on that we are thinking that this INR 2,000 crores number is quite achievable for us.

**Anish:** Sir, my question is for FY25, so like you have some kind of an understanding or ballpark that how are you looking at growth beyond FY24.

**Kamlesh Shah:** After '24, Yes, it may be. Presently it's too premature to spell out the numbers. But yes, what the numbers we are looking for, because after achieving INR 2,000 crores, the same 25%, 30% growth will not be there. There may be a consolidation process which will happen. So my growth during that time will be between 15% to 20% one time. But yes, it is a ballpark figure, but maybe after sometimes we may be able to foresee how we are going to do this also. May be Q1 of the next year would be more comfortable for us to spell out the number.

**Moderator:** We have the next question from the line of Naysar Parikh from Native Capital.

**Naysar Parikh:** I wanted to understand on the capex side. So once we reach INR 2,000 crores in FY24, what would be our utilization at that level? And what is our capex plans for the next two to three years?

**Kamlesh Shah:** So, on average, we are looking for INR 100 crores investment after we reach to INR 2,000 crores, because post that future visibility will be more clear to us. And our target for the global footprint and global market share, which will require that additional capex for that.

**Naysar Parikh:** But at INR 2,000 crores, what could be our utilization?

**Kamlesh Shah:** At INR 2,000 crores, we are just going to have our utilization to nearly between 75% to 80%.

**Naysar Parikh:** And last time you had mentioned about EV and the fact that you are exploring that. So any progress on that, if you could talk about that bit?

**Kamlesh Shah:** I think there is no such progress in this quarter. But may be I think we may talk about that in the next year sometime.

**Naysar Parikh:** And on the defense and marine, Navy side, obviously, that has been a stronghold for us. So, any expectations of orders or what kind of orders are we expecting or what kind of tenders are we expecting in FY24?

**Kamlesh Shah:** Mr. Nanda will answer for this.

**M. M. Nanda:** See, there are two areas we are focusing. One is the Navy, where we have the marine area, where we are focusing. We expect almost -- there are a couple of projects are all lined up. I know, what is going to materialize, out of that we can expect maybe around INR 100 crores next year. And some of the products which we are really trying to develop as a prototype for one of our party who is really sourcing it from Europe, as a matter of fact, there also we expect may be around INR 25 crores to INR 30 crores business to come in from there.

In addition to that, we also have a separate cell, we have really created for land system, basically, where we are exploring the transmission items, basically, where we can really develop and all. So that process is on, but it's a bit premature, as a matter of fact, to talk anything on these numbers for that, but as we really come final on that, then we'll certainly share with you all those details there.

**Naysar Parikh:** Just one last question if I can squeeze in. You were talking -- is there -- for our export market, besides us growing organic, are we looking at any partnerships or acquisitions? We've spoken about that once, but is there any update? And are we looking at something in the near term?

**Kamlesh Shah:** It's too premature. And let the time to come. Presently, let's consume our capacity available with us. And the way in which the European companies are facing a challenge for sustainability, that may create an opportunity for us, for the small companies, which are there in the good market base and the customers, which will help us to explore further. Any acquisition if any in future will not be from the cash and from the borrowings, but it will be strategically within equity swap or other alternate opportunities for us also.

**Moderator:** The next question is from the line of Sanjay Sathpathy from Ampersand Capital.

**Sanjay Sathpathy:** Sir, in your opening remarks, you talked about gas price and macro concerns. In fact, most of those gas price, for instance, has fallen quite a lot. So you were far more confident when the prices were much higher than today. I don't know what really changed, if you can just tell us?

**Kamlesh Shah:** No, this is the thing which is presently, yes, we think in India it is there. But at the overseas level, these are still quite challenging for them. Recently, in the Europe also that the gas prices or energy prices has gone up. So we have not found any clarity from that government sources about that, how it will get rationalized over there.

**Sanjay Sathpathy:** And sir, you talked about your March quarter being much bigger than any other quarter because of seasonality, and we have seen that typically it is about something like 10%, 15% higher than the previous quarter, like quarter three, quarter two. Is that seasonality likely to continue this year as well?

**Kamlesh Shah:** Generally, it is so, because generally Q2 and Q4 for engineering sector is quite better, even for others also. And Q1 and Q3 is generally on the lower side. And that I think is a general tendency. If anything happens, something better, that is in an exceptional scenario.

**Sanjay Sathpathy:** No. My question is that do you have the order book or the order pipeline to really give us a feel about how Q4 will be like compared to the seasonality that you typically see in the past?

**Kamlesh Shah:** Yes. That's what we say, Q4 will be better than Q3 in terms of the numbers, and we are quite confident to achieve that numbers what we have spelled out. If anything better against that, that will be actualized as and when it has happened. But at least quite sure, we are going to sustain INR 1,200 crores at the standalone and INR 1,500 crores on a consol level.

**Sanjay Sathpathy:** And sir, last question that I just wanted to understand that in the past your material handling business used to drag you down a bit and that problem has been kind of resolved. So now that it is over, how are you really looking at bit of a medium-term, your margin outlook? Will it be much better than what you used to see in the past? And the other thing is that, now that your balance sheet is much more -- I mean, there is no debt anymore. So, are you in a position or are you looking for a much more aggressive growth target?

**Kamlesh Shah:** No, we will still continue the same because still that uncertainty at that PSU level, where I think generally we are catering the business in power sector and otherwise, that is still sustaining. So we don't want to go aggressive, let it come at the mature level, during that time we'll do. We are debt-free and we have that capability, but let's focus presently on the supply of material and after-sales services. So we are evaluating the opportunities and considering the strategy what we have lined up, we will like to go with that strategy only.

**Moderator:** The next question is from the line of Harshil Shethia from AUM Fund Advisors LLP.

**Harshil Shethia:** Sir, in the next year when you're guiding for INR 2,000 crores of topline, what kind of EBITDA margins will we be able to do? Will we do like the 23%, 24% which we are doing currently, or will it go to our previous band of 20%, 21%?

**Kamlesh Shah:** We'll go with our consol level, our EBITDA margin we are sustaining at 22%, because when we are going for INR 2,000 crores, and we also have to strengthen our brand. So there is a cost related to brand building also. And then we are expecting to supply to OEMs. So we will not get the same margin from the OEM compared to what we are getting from the replacement market. So we are sustaining the 22% margin only. If something better is coming up, that will definitely be there also.

**Moderator:** We have the next question from the line of Dipen Shah from DS Investments.

**Dipen Shah:** Several questions have been answered. Just a couple of questions. If you could just throw some more light on the marine opportunity which you spoke about in the Gears business, like anything more specific which you can tell us about, what are you looking at and how big the opportunity will be? And the second question is in the MHE business, we have seen profitability coming back. And so, if you can just give us some more color on that business, whether profitability can further improve from the current levels, or whether we should expect similar profitability in the next year?

**M. M. Nanda:** See, regarding marine, as I mentioned earlier, there are a couple of jobs are there, some projects have already been announced by Indian Navy and Coast Guard. So few of them will get materialized year-by-year basis. So we expect, as I mentioned, a job which is getting materialized, based on that the number which I shared with you, basically. So there are many other jobs also which will be also there in the pipeline, which will really happen may be year after that and following year and all. So that is the way it is. There are good opportunities what we can see in marine, Indian Navy, as well as Coast Guard, which is really there with us. And as I mentioned, apart from that, there are some overseas supplies also will continue to really do, which we are developing for them those models and all that.

**Dipen Shah:** And sir, just to interrupt, anything further on the other defence arms, a couple of quarters back there was some mention about us entering into defence in a big way. So apart from Navy, the other arms, are we looking at further orders?

**M. M. Nanda:** Yes, that's exactly which I've mentioned. We have created a cell for land system, basically, which we are really examining what are the opportunities which we can really convert for us, taking our core strength from utilizing that and all. We are already working on that, but it's a bit premature as of now to talk about it, but we are already working in that direction very seriously on that.

**Dipen Shah:** And on the MHE business, the margin picture, sir?

**Kamlesh Shah:** Yes. So far the MHE is concerned, definitely we are expecting a little bit improvement in the margin going forward. However, on an average, maybe we can expect 20% to 25% growth only because we don't want to go aggressive and enter the EPC. Though the business opportunities are available, considering the uncertainty of the execution from the customer side, or otherwise, we don't want to again go in the same loop. So that's why we are a little bit cautious.

**Moderator:** The next question is from the line of Ankit Babel from Subhkam Ventures.

**Ankit Babel:** Sir, a couple of questions. You mentioned that you people are in talks with a lot of OEMs in the overseas countries but discussions are at nascent stages. So just wanted to know, now assuming if you succeed in getting tied up with some -- any such OEM player, just wanted to understand how big can that opportunity be per customer?

**Kamlesh Shah:** Yes, that opportunity is there in OEM, because Europe is the world leader for supply of the engineering products and machines and equipment. So, as and when it will get materialized, definitely that will be a breakthrough for us and will create an opportunity to pitch in, in the OEM markets in Europe itself.

So we think, even if anything is getting materialized, presently it may be difficult for us to spell out the numbers how big it will be. But whenever it will come, we are expecting that it will be -- and it will be also on a ramp-up basis, because we cannot supply from the day one what they are expecting the numbers to go up at their peak level also. But that opportunity definitely will be at least minimum of INR 50 crores to INR 100 crores on annualized basis.

**Ankit Babel:** And what could be the potential number of such customers which you can target, suppose in the European Continent, in the coming two to three years?

**Kamlesh Shah:** So, I am yet to really get the numbers - the OEM numbers, but I don't know how at least I can be right on the numbers, but what numbers presently is there given the lineup, because the inquiries are many with whom we are working for, which may be 10, 15. But how much of it is getting converted, because my conversion ratio from the replacement market in overseas or in India, we can spell out because with our experience and otherwise. Here, our experiences are very limited, so numbers will be difficult in the sense how much inquiry will be converted into orders. But presently, our discussions are going to happen with 9 to 11 OEM customers with whom our team are discussing about the business opportunities. Of this, nearly three to four have already visited our factory over here, our facility in India.

**Ankit Babel:** So just wanted to confirm, in your FY24 guidance of INR 2,000 crores revenue, have you factored in some prospective revenue from such new OEM customers?

**Kamlesh Shah:** Yes. We have.

**Ankit Babel:** Is it incrementally everything, whatever growth is coming is through these OEMs only?

**Kamlesh Shah:** We will have a better business from the OEMs, and that will create an opportunity for us for the replacement in the global market.

**Ankit Babel:** And you also mentioned that the margins in the OEM business are relatively lower. So could you just give a ballpark idea that, that would be in what range, like 15%, 18%? How much less compared to your existing margins?

**Kamlesh Shah:** I think it is -- Mr. Babel, it is too challenging for me to spell out the numbers now. But definitely it will not be the 22% what we are doing because OEM is much smarter than me also. And the OEM knows the cost better than what I know about my cost. But, yes, because we also have our own threshold. Below that we don't want to go aggressive so far as the OEM market is concerned.

**Moderator:** The next question is from the line of Suhrid Deorah from Paladin Capital.

**Suhrid Deorah:** I just wanted to actually follow-on with the OEM question. Currently, your sales in both divisions, you're selling directly to the customer only?

**Kamlesh Shah** In overseas?

**Suhrid Deorah:** No, in India, your sales are all direct to the customer?

**Kamlesh Shah:** No. We also have our sales through OEM in India. In India, we are well placed so far as the supply to OEMs are concerned.

**Suhrid Deorah:** What percentage of your sales is to OEMs today versus direct?

**Kamlesh Shah:** In India?

**Suhrid Deorah:** Yes.

**Kamlesh Shah:** Yes. In India, I think presently we are selling just to OEMs, particularly in the material handling, our gear business through the material handling business side. So, including the steel and cement, mainly on the core sectors, it is nearly 17% to 24%.

**Suhrid Deorah:** So about 20%-odd of your total sales is through OEMs today and the rest is directly?

**Kamlesh Shah:** Yes, direct.

**Suhrid Deorah:** So in the export market, as you increase your presence in the export market, it will be through OEM customers it will not be direct sales. That's broadly your strategy, to partner with companies with whom you can increase your market share?

**Kamlesh Shah:** Correct.

**Suhrid Deorah:** And these companies are currently sourcing their equipment, their gear requirements from your competitors who might be European companies?

**Kamlesh Shah:** Yes, mainly, correct. Absolutely.

**Suhrid Deorah:** So you're trying to use your cost advantage to basically increase your wallet share with those customers?

**Kamlesh Shah:** It is not a price war through which we are going. We are going with our sustainable quality and uninterrupted supply. That is the main focus for us, not the prices. So pricing is at the last.

**Suhrid Deorah:** So, your competition is European customers or is it Chinese customers?

**Kamlesh Shah:** Yes. European customers only. The European suppliers, our competitors.

**Suhrid Deorah:** Yes, sorry, your competition is European suppliers or Chinese?

**Kamlesh Shah:** Europe. Chinese cannot sustain so far as these particular products are concerned, gear products. So there is no competition from China as of today.

**Suhrid Deorah:** So if you look, three, four years out, today your percentage from your total sales is about 20% is through OEMs. So three, four years out, what percentage could it become?

**Kamlesh Shah:** Presently the 20%, what we are talking about is in India. In overseas, it will be separate. So, once it will start, it will open the doors for the others also for us. So, I think maybe next year will be a better position for me to spell out that how the opportunity will be there in terms of the numbers, in terms of the sectors also of the OEMs.

**Suhrid Deorah:** Just one clarification today, export is what percentage of sales?

**Kamlesh Shah:** Presently, my export as on today is 10% from India.

**Moderator:** The next question is from the line of Gunjan Kabra from Niveshaay.

**Gunjan Kabra:** So a couple of my questions have already been answered. One question which I had is that there are lot of announcements in marine also and in the railways also. So wanted to understand that in which phase of the announcement -- from announcement to execution, in which phase do we receive orders, because normally it takes around two to three years to execute a project. In what phase do we come in and we receive orders?

**M. M. Nanda:** See, you're right, it takes two to three years, even more than that also sometimes. But whatever, we are trying to spell it out. We just mentioned little while ago, the projects which have already been announced quite earlier may not have really been noticed by you people, but they are already there, those projects are there which are getting materialized year-on-year actually, we are talking about on that. So it could take, after the announcement, sometimes three to five years also because, first, the order will be placed on the shipyard by the Indian Navy or the Coast Guard will place the order on the shipyards, and the shipyard will be inviting tenders, and then we'll be getting the opportunity to supply them. So it takes -- even after that also, it takes 1-1.5 year to really start supplying and all that.

**Gunjan Kabra:** And likewise in railways also?

**M. M. Nanda:** Railways, it is slightly earlier. In fact, Navy takes a little longer time, as a matter of fact on that.

**Kamlesh Shah:** Because of the sensitive area, considering the securities and other parameters, it takes time. And it is coming through not directly from the Indian Navy, but their counterpart, which is called the Mazagon Dockyard, Garden Reach, Cochin Shipyard like that.

**Moderator:** We have the next question from the line of Shivam from Noak Tech.

**Shivam:** Congrats for the results. I just want to ask that what all other regions are we targeting except Europe in the export opportunity?

**Kamlesh Shah:** No, we are targeting the global -- Europe, we are more focused on the OEM market because Europe is the leader in the Western countries to supply the gearboxes. But our presence is global and we are now focused more on US, Mexico, Canada and South America also, over and above Europe itself. And also we are exploring an opportunity in Australia aggressively. There their mining activities and others are there which we are creating the opportunity for us to supply the gearboxes over there.

**Shivam:** So in the other regions also, it will be through the OEM route only?

**Kamlesh Shah:** Not necessarily. It may be through distributor route or it may be through OEM. OEMs are generally based out of Europe only, mainly. And so far the other local players are there in the other regions, like in Australia or may be in Brazil or other countries of South America.

**Shivam:** And sir, are we setting up our own distribution branches also in Europe, like to cater the export or it will be directly through India, like no teams would be there of yours?

**Kamlesh Shah:** We already have that -- our branch offices through -- under a separate subsidiary in Europe itself.

**Shivam:** In which country do you have the branch offices?

**Kamlesh Shah:** We have the assembly center in Sweden and a small center in Netherlands, but we have our branch office in France, Germany, Finland, Denmark.

**Shivam:** The branch officer are set?

**Kamlesh Shah:** Yes. It is already set. And in fact, we are strengthening the resources by putting more business development and marketing fellow in these branches.

**Shivam:** And sir, on the domestic side, I just joined the call later, can you elaborate on which sectors are you seeing the good demand coming from?

**Kamlesh Shah:** See, mainly from the core sectors, which are dominating in terms of the demand, which is steel, cement, power, material handling division and sugar. These are the five sectors which are dominating, over and above the others are there.

**Shivam:** Can you give me a sectoral percentage of revenue, if possible?

**Kamlesh Shah:** Presently, I don't have the sectoral level revenue. But I think we already have given the order intake on sector-wise, so that itself we can consider as the revenue because that absolutely is going to be converted into revenue only. It is there in our presentation.

**Shivam:** And sir, what will be the margins, we are expecting in the export business that we are now developing?

**Kamlesh Shah:** Yes. Naturally, the margin will be better in the exports, so which is already there. If you see presentation for this Q3 and Q4, what we having the guidance of 24% margin. So that has improved the margin from export, which is having the better margin. That is how we can spell out. But giving the exact numbers, may be difficult at this point of time.

**Shivam:** And sir, any elaboration on the OEM margins that will come and the distribution model margins that will come, if you can just give a guidance?

**Kamlesh Shah:** Yes. Distribution generally comes through our replacement market, where I think we have the better margin. And OEMs are concerned, yes, because in OEM I'm getting the volume. So when there is a volume game is there, I think margin will also have to come in that line only. But if I'm spreading my fixed cost over the higher volume, and if I'm spreading my fixed costs with a lower volume, naturally that benefit will come to us only.

**Shivam:** Can you give a ballpark number for both?

**Kamlesh Shah:** I don't know how to spell out. Let me have one -- a big chunk of the OEM supplies, then only it will be better, but I think it will be better than 15%-plus margin.

**Shivam:** And the replacement ones will be around 24%, 25% or above that also?

**Kamlesh Shah:** No, replacement margin is generally between 20% to 22%, that is how it works out.

**Moderator:** We have the next question from the line of Chinmay Kabra from Emkay Global Financial Services.

**Chinmay Kabra:** I just wanted to know, I missed out. Regarding your branch offices which have been set-up in Europe, Sweden, just wanted to know whether the OEMs will be manufactured in India and then sent out or how is it going to be functioning, if you could just repeat it, please?

**Kamlesh Shah:** No. We have assembly center in Sweden and we have the small assembly center in Venlo also. So depend upon how that works out. But our idea is the parts will be supplied from India, which we call it as a kit, and it will get assembled in Sweden, and if required by the customer we can, if options are available, it will be preferable for us to supply directly from India only.

**Moderator:** The next question is from the line of Manish Goyal, an Individual Investor.

**Manish Goyal:** Couple of questions. Sir, if I probably try to get better perspective on the guidance for FY24 of INR 2,000 crores. If I just look at your outstanding order book, it is at INR 720 crores on a consolidated basis, it is still lower than the FY22 year-end order book of INR 732 crores. And particularly in gears, it is almost down by 7%-8%. So is it that we are probably looking at very strong order inflow in next few months, which will probably help us to reach that guidance of INR 2,000 crores? And if you can just break up that INR 2,000 crores between, standalone and subsidiaries, how it will look like?

**Kamlesh Shah:** Yes. Earlier also I said, now, with ways of improvement in our overall production cycle, which has now reduced the production cycle for our standard product, as well as for our engineered product. So because of that you find that the numbers are not there. Generally, you are looking after in '21 or '22 numbers, like that. This is one.

So far the other things are concerned, on a standalone basis, we are looking for INR 1,500 crores turnover for FY24, and on consol level, we are looking for INR 2,000 crores, that's how we spell out that. Third thing in terms of -- yes, we have that orders in pipeline. So that definitely will be there. That plus or minus on a comparison basis will be there also. But so far as the numbers are concerned on actualization that will be based on what the strength of our products and facilities are there.

**Manish Goyal:** So you are saying INR 1,500 crores in standalone versus INR 1,200 crores. So on subsidiaries, you are expecting INR 500 crores versus INR 300 crores?

**Kamlesh Shah:** Yes, correct.

**Manish Goyal:** So if I probably look at subsidiary order book outstanding, in fact, sequentially, it looks like it has fallen from INR 150 crores to INR 66 crores. So what gives us that confidence, sir, that we should be able to have that INR 500 crores revenue because right now, the order book seems to be quite low?

**Kamlesh Shah:** Generally, in Q3, order book position is low because of the holidays, Christmas holidays over there and in Europe, and the other part of the Western countries, they are taking the longer leave so far as the Christmas vacations are concerned. The same is also here in India also. In India also we are having, in Q3 we are having the two vacations. One is related to Diwali, which is generally in India it is there. And as well as in the December, Christmas holidays are also there, though, it may be a very limited holiday, but generic, in respective companies employees are consuming their leaves. So that is also giving an impact on the order inflow.

**Manish Goyal:** And sir, would it be possible to give standalone order intake number for Q3 and nine months, because till previous quarter you were giving standalone numbers and this quarter you have given consol numbers. So can you please share the order intake numbers for standalone?

**Kamlesh Shah:** My order intake for Q3 at standalone level was INR 200 crores and on consol level it is INR 279 crores, in gear. And in MHE it is INR 83 crores. So in standalone level, our Q3 numbers is INR 283 crores for the domestic and on consol it is INR 362 crores.

**Manish Goyal:** Sorry, can you repeat the gear sector consol level?

**Kamlesh Shah:** Gear sector consol, Q3 order intake is INR 279 crores. In MHE I said we don't have the export, so we consider, it's all domestic and consol, both same, it is INR 83 crores. Both put together it's INR 362 crores for Q3, order intake.

**Manish Goyal:** And sir, in your presentation, where you have given the order inflow breakup our MHE, looks to be some error over there because the total is coming up to 107%. So may be if you can rectify that going forward and -- it will be very helpful. And sir, so, on margins, you believe that we should be able to improve or maybe maintain the margins because, again, we are seeing commodity prices increasing, and will we have ability to pass on that price increases, cost increases?

**Kamlesh Shah:** So far what we know you have drawn the attention for the error, let me just check. If it is so, I will correct that also. And so far the margins are concerned, yes, we are going to maintain the margin what we have already spelt out as a guidance for that FY24.

**Moderator:** We have the next follow-up question from the line of Pratik Kothari from Unique Portfolio Managers.

**Pratik Kothari:** Sir, in one of the recent industry publications there was this mention of two new technologies which have come up. One is the magnetic gear replacing mechanical gears. And also you have motors, who by themselves now control speed and torque and hence you don't require gears. I mean, I don't understand too much technicality here, but if Mr. Nanda can speak about the relevance of it, the size of it, the technical aspect of it, please?

**M. M. Nanda:** See, what you are talking about is the gearless technology we are talking about, but that is very far-fetched. Basically, in some of the applications it may be applicable. Some gearless like lifts are there, you will find it. There are -- already using it. But all the applications which are really prevalent as of now, there is nothing to really, obsolescence to happen as far as the gear technology is concerned.

It can't be visualized, it can be removed, obsolescence will happen, basically. But the cost is very prohibitive as far as this gearless technology is concerned, basically, on that. And that too, also, where some applications where they can use this technology you are referring it to, but in the application what we are talking about, the steel, sugar, cement, power, we can't even think about really going gearless.

**Pratik Kothari:** And about magnetic gears, there was a mention about magnetic gears?

**M. M. Nanda:** Yes. See, it is coming from the same -- on the same front, basically, trying to remove the gear technology. That is how it is really happening. So in the sense, the exact technology which is really there that is getting out of this thing and then going gearless on the other front.

**Kamlesh Shah:** So present, considering the cost versus the technology, it's too high cost, it is very costly to replace with the existing technology. So at the appropriate time it will be there. So, our team is also watching about that an our internal systems is also studying about these gear technologies also.

**Moderator:** The next follow-up question is from the line of Naysar Parikh from Native Capital.

**Naysar Parikh:** Just one clarification. When we say, for us overseas versus domestic revenues, where is this overseas reported? Is all subsidiary revenue, overseas revenue, just if you can give some clarification there?

**Kamlesh Shah:** These all, overseas are 100% subsidiary of Elecon Engineering Company Limited. And they are reported under consolidated.

**Naysar Parikh:** And the standalone does not have any overseas revenues or exports?

**Kamlesh Shah:** Standalone will have exports. So that export is a part of my overseas business only.

**Naysar Parikh:** So overseas is basically the 10% exports in your standalone business, plus all the subsidiaries?

**Kamlesh Shah:** Correct. Absolutely.

**Moderator:** Thank you. Ladies and gentlemen, as that was the last question for today, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

**Kamlesh Shah:** Yes. Thank you very much for all the participants for showing interest in our Company. And if any questions are there, please feel free to connect to Mr. Binay, who is our IR from E&Y, or Mr. Narasimhan, who is the Chief Financial Officer of Elecon Engineering Company Limited or Ms. Bharti Isarani, who is the Company Secretary of the Company.

Thank you very much and have a good day to all the participants.

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