August 22, 2023

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

Through: NEAPS

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001

Through: BSE Listing Centre

Dear Sir/Madam,

Subject: Transcript of the analyst conference call - financial results for the quarter ended June 30, 2023
Scrip Codes: NSE - ELGIEQUIP / BSE - 522074

In continuation to our letter dated August 4, 2023, regarding quarter ended June 30, 2023 earnings conference call and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the analyst conference call held on Wednesday, August 16, 2023 at 5.00 P.M. for your information and records.

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

Thanking you,

Yours faithfully,

For Elgi Equipments Limited

PRAKASH SIVASAMY
Digitally signed by PRAKASH SIVASAMY
Date: 2023.08.22 10:33:24 +05'30'

S Prakash
Company Secretary
Encl.: a/a

"ELGi Equipments Limited
Q1 FY2024 Earnings Conference Call"

August 16, 2023

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

MANAGEMENT: **DR. JAIRAM VARADARAJ – MANAGING DIRECTOR – ELGI EQUIPMENTS**

Moderator: Ladies and gentlemen, good day and welcome to ELGi Equipments Q1 FY2024 Results Conference Call hosted by Asian Markets Securities Private Limited. This conference may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. Actual results may differ from such expectations, projections, etc., whether expressed or implied. Participants are requested to exercise caution while referring to such statements and remarks. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Kotak from Asian Markets Securities. Thank you and over to you, Sir.

Kamlesh Kotak: Thanks, Nirav. Good evening, everyone. We welcome you all to the 1Q FY2024 Earnings Conference Call of ELGi Equipments Limited hosted by Asian Markets Securities. We have with us today Dr. Jairam Varadaraj - Managing Director representing the company. I now request, Mr. Jairam to take us through an overview of the quarterly results and then we shall begin the Q&A session. Over to you, Sir. Thank you.

Jairam Varadaraj: Thank you, Kamlesh. Good evening, ladies and gentlemen. I appreciate the time that you have taken to be with us on this call. I will take you through the quarter's performance in comparison to the previous year's same quarter, Q1 of last year.

So I will first do a reconciliation at an EBITDA level and explain to you where it went right and wrong. Considering the increase in sales and a marginal increase in contribution, we should have had an EBITDA of close to 1100 million, against that we have had about 860 million. Primary increase has been a split actually between increase in employee cost and increase in fixed overheads. Nothing to be alarmed about. The increases have been in line with the inflation based increases around the world as well as in India as far as employee costs are concerned. As far as fixed costs are concerned, there are certain onetime consultancy fees that we are incurring as part of some of the projects that we are running for improving productivity as well as reducing costs. So nothing to be alarmed about. Overall, I think we have been able to maintain our margin profitability levels. I will come back and talk a little bit more on profits.

Let me first look at sales. At a consolidated level our sales has increased by 5% compared to the prior year. This has been a bit of a disappointment, but this is something as a guidance we gave during the annual investor call where we said we are going through some painful ERP implementation and integration in North America. So we lost a good part of April and some part of May, but we have come back. We came back in June. So as a consequence, we have had a setback in North America, which actually was lower by almost 25% compared to the previous year.

Other than that, let me go back as I normally do starting from Australia. Australia grew, not as much as we expected internally, but there was definite growth over the prior year. Southeast Asia was a little disappointing, but nevertheless it grew compared to previous year. India had a growth of about 12% to 15% again could have done better, but we are working on some of the programs. Europe had a significant growth of almost 50%, and our automotive equipment business grew by about 25%. So overall the growth in revenue was good in Q1 except for a few opportunities for better growth in certain regions and except North America.

From a growth split point of view, if I exclude North America, the good thing is our volume grew by 9% and our price realization was about 3.5% - 4%. So the good thing is that, if you look at the prior year, there was a big correction in pricing in the market and as a consequence, a big part of last year's growth came from price increase rather than volume, this quarter the volume has picked up, so which is a good sign overall that we are gaining sales in real terms.

Moving on to the mix of compressors, we have by and large the same at around 45% - 55% between India and the rest of the world, and we expect that percentage will pretty much continue in the near future. With this as a background, with North America coming back on stream, I would say that they are at around probably 90% - 95% of normalcy. Considering all that, we expect that we will grow our actual performance by about another 10% to 11% for the second quarter, we will grow compared to the second quarter of previous year. So that is reasonable, we are reasonably confident that we will do that. On the other hand, I think our EBITDA growth would be significantly better considering that the sales coming in from North America, North America actually posted a loss because of the significant drop in revenue, so that is going to come back. So we are quite confident that our EBITDA for Q2 will be better than the previous year by a healthy margin and definitely better than Q1 of this year. From a profitability point of view overall I think we have done a good job at a contribution level. We have trimmed, we leveled out of price increases that we did last year, which was commensurate with the cost increases that were there in all the metal commodities and freight and all that. All that has been leveled out and right now we are confident that we can continue this level of contribution margin at a gross profit level to sustain into the future, and for us as a company the last one and a half, two years was a challenging but also a good experience because we were able to do a discovery of pricing in the market for a brand called ELGI in India as well as outside. We realized that there was stable and that we were able to get some of it back. So we expect this positive trend to continue on.

As far as the cash flow is concerned. Quarter one, we did have a positive cash flow. We started with about 600 million as the net debt as of March and we closed with 800 million. So we have been able to generate close to about 200 million of cash, which is positive. This is not something that we are happy about, I mean, there is still room for us to be able to reduce inventory and receivables. We should be able to continue to improve our working capital situation with better control over receivables and inventory especially.

So that is basically the summary of our performance. As far as Capex is concerned, as always our desire to spend is far greater than our capacity and capability to spend. We have hardly spent too much. We have probably spent about 116 million - 115 million in the first quarter. So we do not expect anything significant to happen.

From a business point of view, there are indications of some slowing down in Europe, some slowing down in Australia, and India seems to be indicating of some lethargy in finalization, hesitancy in investments. So we will have to wait and see whether it is an ELGi specific response or it is a general market response, we will wait and see. We are also architecting, finalizing some programs to put some special initiatives in the market in India. We will talk more about it in the upcoming quarters when we have finalized it. So that is basically a summary of our performance in Q1. We are happy to take your questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: Thank you very much for the opportunity. Sir, my first question is a bit of a clarification. When you mentioned a volume growth of 9% Y-o-Y and a pricing growth of 3.5% to 4%, is this at India level, right?

Jairam Varadaraj: No, this is at a consolidated level without North America. North America like I said was lower than last year. So that kind of distorts the performance in Q1. So to give a clearer picture of steady state performance I removed North America.

Harshit Patel: So Sir, what would be the breakup of this 12% to 15% of India growth similarly in volume and pricing terms?

Jairam Varadaraj: It is very similar.

Harshit Patel: My second question is on the pricing of our compressors in North America and Europe. Let us say hypothetically we sell an oil lubricated or an oil free screw compressor here in India at X rupees. What would be the similar pricing in the USA or the European market. I understand that it would vary on the market dynamics, our positioning in that particular market and so on and so forth, but just as a broad indicator, any ballpark range if you could give?

Jairam Varadaraj: I cannot give a specific number because the scope of the product itself is different. What we sell in India is different in scope compared to what we sell in Europe and compared to what we sell in the US because of local requirement, statutory things, the product itself is not strictly compatible. It is only the overall architecture of the product and the manufacturing philosophy. They are all constant, but the design is different, the cost structures are different. So it is very difficult to answer that question.

Harshit Patel: Just lastly on the European expansion plan, are we on track to post a little bit of profit or breakeven or is there any change in that particular scenario?

Jairam Varadaraj: Our plan is not to break even this year. Our plan is to breakeven in 2024-2025 and we are on track to make that happen.

Harshit Patel: Understood. Perfect, Sir. Thank you very much for answering my questions and all the best.

Moderator: Thank you. Next question is from the line of Suraj from Asian Market Securities. Please go ahead.

Suraj: Thank you for the opportunity. Sir, just want to understand how the Indian market is panning out in terms of demand across the key categories like industrial, infra, water, etc.?

Jairam Varadaraj: On the industrial side, there are specific verticals that are continuing to have a good enquiry pipeline, but the conversion velocities seemed to have slowed down a bit. So that is why I said whether it is a problem for ELGi or whether it is peculiar to our customers or is it a general market thing we will know in a month or two. As far as portable compressors are concerned, which is really going into a lot of infrastructural work like roads and dams and airports and general construction that has a very strong opportunity for us. Water well seems to be making some very preliminary indications of requirements, but it is very early days. It could just flatten out. We do not know whether it is a sustainable thing.

Suraj: On demand outlook on international market like Middle East, Europe, North America and Australia. Can you brief me on this?

Jairam Varadaraj: Like I explained when I was talking about sales, Australia there is a definite slowing down. We have grown, but we have not grown to what we thought we are going to grow and that is not because we have lost share, it is because overall the market is a little sluggish. The same thing seems to be in Europe as well. North America is not showing any sign of any slowing down. The drop in our North America business had nothing to do with the market. It was more our internal ability to execute, which we are picking up and we are bringing it back to normal. So overall I would say market is there, it is growing, but nowhere near what we thought it is going to grow.

Suraj: Thank you.

Moderator: Thank you. Next question is from the line of Manish Goyal from Thinqwise Wealth Managers. Please go ahead.

Manish Goyal: Thank you so much, Sir. I was just trying to clarify, you mentioned that India has grown 12% to 15%. So when I look at the standalone numbers, Y-o-Y it is decline of 4%? So, I believe this includes exports from India. So when you mentioned that India is 12% to 15% growth that is you are referring to excluding exports.

Jairam Varadaraj: Yes, it is only India sales. This does not include sales to subsidiaries and direct exports that are done in the standalone books.

Manish Goyal: Sir, if I even probably dwell further then on sequential basis it has declined 12%. So is it that our direct exports are also probably slowed down and maybe because US is undergoing ERP implementation then exports to US subsidiaries would also have gone down? So how should we read into it?

Jairam Varadaraj: No, like I said in the first in the annual thing. We said, we are going to rain in our working capital and this is part of the program. So a big chunk of our earlier standalone sales was going to the subsidiaries and that was going at a pace which was dictated earlier when the lead times for shipment were very high and uncertainties were there. So we had kind of bulked up on inventory and we were continuing to bulk up based on longer lead time. But once the lead time stabilized, we really have throttled it. We are continuing to throttle the sales to bring it back to normal levels or the inventory. So you will continue to see that in the second quarter as well.

Manish Goyal: One more clarification as you were giving your opening remarks on Europe market, did you mention Europe saw a 50% growth, just maybe if you can give?

Jairam Varadaraj: Yes, almost 50%.

Manish Goyal: Now we expect that probably some signs of slowdown in Europe and Australia.

Jairam Varadaraj: Yes.

Manish Goyal: Also you did mention that you plan to break even in FY2024-2025 despite the strong sales growth. So is it that we probably have taken a call to invest more than what earlier we would have anticipated.

Jairam Varadaraj: No, our growth was like a hockey stick the plan. So initial periods of our entire strategic plan for Europe had lower percentages of growth in the earlier years and a steep increase in the growth in the subsequent years, and what we are seeing now is part of that hockey stick and we are carefully watching it and seeing how do we ensure that things stay on the rails.

Manish Goyal: You also mentioned that in Q1 North American sales were down 25% that is you are referring to Y-o-Y or the sequential numbers.

Jairam Varadaraj: Yes, year-on-year.

Manish Goyal: Thank you so much, Sir. Thanks a lot for all the clarifications.

Moderator: Thank you. Next question is from the line of R Govindraj, an individual investor. Please go ahead.

R Govindraj: My question is regarding this one time consultancy, how much was that paid out Sir?

Jairam Varadaraj: Sorry, you have to repeat your question a little slowly.

R Govindraj: Regarding this one time consultation fee. What was the quantum paid out, Sir?

Jairam Varadaraj: What is it? Consultation.

R Govindraj: Consultation fees?

Jairam Varadaraj: Consultation? See, I do not have the number in front of me. I cannot give you the exact figure.

R Govindraj: Second is regarding that Siemens order. In the exchange trading, it was mentioned that 1200 sets of main compressors. So does it mean that once it consists of two or three compressors.

Jairam Varadaraj: Mr. Govindraj, you have to speak a little slowly as well as your voice is very garbled. I am not able to make out what you are saying.

R Govindraj: Sir, regarding the Siemens order wherein 1200 sets of main compressors are being given. That is one set contributes two main compressors or three main compressors.

Jairam Varadaraj: Two.

R Govindraj: And are we supplying to this Vande Bharat trains also?

Jairam Varadaraj: Yes.

R Govindraj: And how many compressors are going for each set of Vande Bharat train?

Jairam Varadaraj: That depends on the number of train sets in a train. So Vande Bharat is more like an EMU, it is not like Siemens locomotives, it is electrical multiple units. So it depends.

R Govindraj: And it is a set of four carts contributing in multiples of four. So each four cart will have a compressor.

Jairam Varadaraj: There will be one per multiple units.

R Govindraj: About the employee cost, how much was the increase?

Jairam Varadaraj: It was between 8% to 10%.

R Govindraj: And how much in terms of revenue or still it is in downtrend?

Jairam Varadaraj: Sorry.

R Govindraj: Raw material cost.

Jairam Varadaraj: Yes.

R Govindraj: Whether it is coming down or it is staying at that.

Jairam Varadaraj: It is pretty stable.

R Govindraj: Thank you for your answers.

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

Harshit Patel: Thank you very much for the opportunity again. Just a follow up from the previous participant's question. Could you indicate what is the quantum of that order from Siemens and what would be the execution timeline? I think it would be the same as the Siemens execution for those 12000 HP Locos.

Jairam Varadaraj: The quantum of the value of the business is about 1900 Crores. Split between equipment and a long-term service agreement. The service agreement is over a 35 year period, the supply of compressors is over a 12 year period.

Harshit Patel: What would be the split of this 1900 Crores between these two elements equipment and service.

Jairam Varadaraj: We will announce that once we get the final order from Siemens at that point we will disclose that.

Harshit Patel: Thank you very much.

Moderator: Thank you. Next question is from the line of Navin Vijay from NS Capital. Please go ahead.

Navin Vijay: Good evening, Sir. In your opening remarks, you mentioned some slack in the order conversions domestically. Could you give some more color on that, I mean, in which sectors particularly or something of that sort.

Jairam Varadaraj: I do not think there is anything specific to any sector. Like I said, it is across all sectors we are seeing enquiry levels are still quite strong. It is just a speed of conversion seems to be a little slow. So I cannot blame it on or pinpoint it to any specific sector. Of course there are some sectors like textiles, which are weak and have been weak for almost a year now.

Navin Vijay: Given that few economies are entering into a recession technically and then we are also seeing some slowdown here does that alter your growth projections or do you want to stay intact at least for this quarter.

Jairam Varadaraj: Definitely it will affect our internal budgets that we have, which I really do not want to talk about, but we will have a challenge getting our budgets done, but we are working on multiple options. We still have close to 7 to 8 months to work on alternate options. As far as percentage growth is concerned, I think we were expecting to grow double digits, but probably it will come down to a high single digit.

Navin Vijay: That is for this fiscal.

Jairam Varadaraj: Sorry.

Navin Vijay: That is for this year you are saying.

Jairam Varadaraj: Yes, for the year.

Navin Vijay: My last question is, over the long-term, where do you see the new thrust areas coming? Where are you working on? Apart from the steady state business that we are carrying on now.

Jairam Varadaraj: There is no steady state for us because we have been on a strategy to grow the business globally. We have identified key markets that we want to focus on, which is Australia, Indonesia, Thailand, India, Europe and America, and we have identified the products that we want to work on. So those are the strategic thrust areas, the market size is huge. Our presence in these markets is small, and that is really what we want to focus on.

Navin Vijay: Thank you, Sir. I appreciate your time and answering all these questions, Sir. Thank you very much.

Moderator: Thank you. Next question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

Kamlesh Kotak: Sir, just wanted to understand some more of the railway opportunity for us. Do we also have some more opportunities across, so, just if you can enlighten us about the metro and freight part of it, because there seems to be a lot of investments now.

Jairam Varadaraj: Our presence in the metro segment in our country is very small, and the reason is not because we do not have a product or our product is not capable of functioning in it. It is primarily because metro tenders are global tenders and almost all of them are won by global electrical multiple unit, railway unit manufacturers, and they have their suppliers in whether it is in Europe or the US or Japan or Korea. They have their own suppliers which are homologated for their supply. Now we have really not gone out to these OEM's to get our compressors homologated into their units. But with the entry of the private locomotive manufacturers in India, we see an opportunity to get compressors homologated even for the electrical multiple units. But it is very early days to talk anything specific about it, but the opportunity could be quite significant.

Kamlesh Kotak: And on the freight side, Sir?

Jairam Varadaraj: On the freight side, we are quite strong. We are freight and passenger intercity, freight intercity passenger trains we are very strong. At the moment bulk of almost 90% of the production of locomotives are by government owned locomotive manufacturers but with the entry of companies like Siemens and Alstom with whom we have good relationship with, even when the switch happens from government manufactured locos to privately made locos, we will continue to have our presence there.

Kamlesh Kotak: Sure. Thanks.

Moderator: Thank you. Next question is from the line of Navin Vijay from NS Capital. Please go ahead.

Navin Vijay: Just a small query on the replacement cycle for the railway. How does it differ from the previous locos to the EMUs? Is it the same like every four to five years or is it varying now, Sir?

Jairam Varadaraj: None of the railways is four to five years, I mean, typically compressors last about 15 years, but there is a lot of maintenance and service and overhaul that happens during that 15 year cycle.

Navin Vijay: Got it. Thank you, Sir.

Moderator: Thank you. As there are no further questions, I will now hand the conference over to the management for closing comments. Sir would you like to make any closing comments.

Jairam Varadaraj: No, thank you. I appreciate as always the patience and time that all of you have taken. So, I look forward to a better second quarter and I look forward to speaking with you at the end of that. Thank you.

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