

August 6, 2021

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

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001

Scrip Code : ELGIEQUIP

Scrip Code : 522074

Through : NEAPS

Through : BSE Listing Centre

Dear Sir/Madam,

Sub: Intimation of transcript of the Investors conference

In continuation to our letter dated July 30, 2021 regarding Q1 FY22 Earnings conference call, please find enclosed the transcript of the analyst conference call held on August 4, 2021.

This is 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 truly,

For Elgi Equipments Limited

S Prakash
Company Secretary

Encl.: a/a



“ELGi Equipments Limited
Q1 FY2022 Earnings Conference Call”

August 04, 2021



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

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

Moderator: Ladies and gentlemen, good day and welcome to the ELGi Equipments Q1 FY2022 Earnings Conference Call hosted by Asian Markets Securities Limited. This conference call may contain certain forward looking statements about the company, which are based on the beliefs, opinions, and expectation of the company as on date of this call. These statements are not the guarantee of future performance and involve risks and uncertainties that are difficult to predict. The actual result may defer from such expectation, projection, etc., whether expressed or implied. Participants are requested to exercise cautions 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 “*” 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 Market Securities. Thank you and over to you Sir!

Kamlesh Kotak: Thanks Bilal. Good evening everyone. On behalf of Asian Markets, we welcome you all to the 1Q FY2022 earnings conference call of ELGi Equipments Limited. We have with us today Mr. Jairam Varadaraj, Managing Director representing the company. I request Mr. Jairam to take us through the 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. Thank you so much for taking the time to be with us this evening. I hope I can make this interesting for you. This is a very funny quarter because the reference quarter of the prior year is an irrelevant quarter because almost two months of that quarter there was no business so if I do a comparative analysis of the two we will look like we are doing exceedingly well and that would not present a right picture about the current performance status of the company. One option was to look at the Q2 of last year as a basis to compare our performance with the Q1 of this year considering that there was a lag, but that also was a little unrealistic because in the Q2 of last year the mix of sales was very different from a steady state because there was more of global sales and less of India sales and as a consequence the profitability ratios were quite skewed in the Q2. So we did multiple things so instead of the traditional reconciliation that I do, I will talk about this quarter's performance in relation to the Q1 of 2019-2020, which was a steady state year before COVID happened. So when you compare it with the Q1 of 2019-2020 we have grown our revenue by almost 6% to 7%; however, at a contribution level we were lower by 1% and at an EBITDA level we were lower by 2% right so this is how the numbers stack up. If I have to look at the contribution analysis why did we lose a percentage from a steady state year, the primary reason has been the increase in the raw

material cost which really started in October of last year and kept marching up and quite violently kept marching up till February. We did a series of price corrections during this period in the market both in India and internationally. It seemed to pause a bit in February but by the end of March and beginning of April it had a violent upward movement again and that caught us by surprise and again we went into another price correction and for us in capital goods there is always a lag between a price announcement, a price revision in the market and realization of that revision in the P&L so in this quarter we have gone through that uncomfortable period of the lag. We have done multiple in fact we have done five price corrections in the market it has been very challenging and difficult to do that, but we went ahead and did it because it had to be done. In some of it we have recovered, some of it we have had to absorb so that is the real reason why we have lost out on contributions in the Q1 compared to the same quarter in 2019-2020. So what do we expect? I think this is a more interesting question what do we expect that this year will be?

So let me talk a little bit about the Q2. In the Q2 we expect roughly the same phenomenon to continue because price corrections are happening, the last one what we did was in June so that will take a lag, so I do not expect a big change in the margin contribution. I do not see it dropping but I do not see it significantly going back to recover the raw material price increases but in the Q3 and Q4 combined we should come back to normal and I expect that the full year for 2021-2022 I expect that the material cost percentage would be almost the same as 2021-2022 so we will get it back to that level. In fact if you look at the Q1's material cost percentage is 53.7% and for the full year last year was 53.4% so with all these changes that we are doing I am very confident that we will get closer to that 53.4% number that we had for the full year of last year. Now over and above these price recoveries that are happening, we are in the middle of final stages of rolling out a very, very comprehensive cost reduction program at the material cost and variable cost level. Our targeted reduction is 2% on our revenue so the project that is going to happen is going to take over a 10-month period, so part of that 2% we will also realize during the current financial year so that is why I very confident that by the end of this financial year at the worst case our material cost percentage will be the same as the previous financial year, so having said that what about the topline. Now if you look at the topline compared to again Q1 of 2019-2020 we have grown about 6%, now this 6% does not reflect the actual situation of the company and the market. We could have grown another 7% to 8%, we had the orders, we have the thing that we just had supply challenges, which we have overcome quite significantly in June and July so therefore I am very confident the Q2 and the quarters to follow the growth in revenue is going to be a lot more compared to 2019-2020 and I expect when we close the year our topline growth at the worst case will be at the low to mid teens at the minimum, so my expectation is even if there is a few points of a fraction of a percentage challenge on

material cost we will more than recover on our leverage, so on the topline is going to be a very positive number.

Just to give you a little bit more background to that confidence. India has recovered very well unlike the first wave the second wave had dislocations in regions first in Delhi and Maharashtra then it came to the South and by the time the South got really intense, Delhi and Maharashtra kind of eased up and business started happening but everywhere the underlying desire for business and a positive sentiment remained throughout the second wave. It was the inability to deliver which was the constraint and not the demand itself or the buoyancy in the market. So for us in Coimbatore our plant was running without any stop, we had no issues, the team did an excellent job of managing infections of our people, very low incidence of infection internally and very little serious repercussions of infections in our company it was handled very well, but our biggest challenge was our local suppliers, their factories had to be shut for extended periods because their employees got infected pretty large percentage got infected so that really challenged our ability to supply and that is why I am saying that we could have done a lot higher in topline compared to what we actually did so that buoyancy and optimism goes into the Q2 and onwards.

Now from the market side like I said India there is a still a very positive sentiment. Europe the revenue is tracking higher than what we had budgeted as part of our strategic plan to invest that is a very positive thing. US is coming back from a very low economic activity but even in that low economic activity we continue to grow in the US, which was very positive with the additional stimulus and the infrastructure spend, we look forward to a very positive response from the market for our products in the US so it is very positive there. The biggest challenge for us is really Oceania and South East Asia. Australia is going through serious lockdowns of cities, in pockets, Sydney, Melbourne, now Brisbane and South East Asia are key markets like Indonesia and Thailand and Malaysia are facing some serious infection related lockdowns so we will have to wait and see how these markets so the Q1 performance of Oceania, Australia was good but towards the end of the Q1 they went into lockdown but the rest of South East Asia was quite challenging throughout the Q1, but I believe that they will come back so we are very confident that with all this the topline strength is going to be quite strong for the balance of the quarters. Now in terms of preventing the same inability, I believe that the third wave is not a question of if it is a question of when and when it does happen, how do we ensure that the supply inabilities that we inherited or experienced in the second wave we do not replicate it in the third wave. Now we have done aggressive vaccination programs within the company, 91% of our people working who have to come to work have been vaccinated the first shot and 40% have been vaccinated on the second shot and we are taking this vaccination program to our

contract employees as well as the employees of our suppliers, so we are putting a lot of diligence into it and hopefully in the next few weeks we will start to see percentages increasing in all these segments of people who have a strong bearing on our supply capability.

The third major cost is employee cost. Now again last year is not a comparison because there were a lot of subsidies from the US and Australia specifically, which kind of distorted our employee cost so if you add those subsidies back as a steady state cost and remove the money that we spent on our VRS that we launched in March the increase in our overall cost that we expect for this year so if we go back and say what will be the expected manpower cost end of March of 2021-2022 it will be about between 9% to 10% growth over the corrected number, the corrected number for 2020-2021. The published number is 4117 million of which there was a subsidy of 242 million and VRS of 37 million so if you add the subsidy back and deduct the VRS amount it is coming to 4322 and we expect the annualized cost this year including head count increases is 4746. Now many of these head count increases are a function of timing and traction in the business that we need to so this will be the worst case will be about 9% to 10%. The actual salary increase that we have done is hovering between 6% to 7% for this year, which has been a very reasonable percentage compared to what is happening, but there is with the IT industry announcing the kind of percentages and bonuses this is a bit worrisome in terms of our attrition of talent, but this is what we can afford and we need to manage around it. So if I take all these factors into account I think we have a reasonably optimistic year to look ahead to. Sales will be a good growth. Contribution at worst case will remain at the same level as the whole of last year. Manpower cost would go up maximum between 9% and 10%. The other fixed cost will be a function of how we do growth on the topline if it is not there it is not going to be here, if it is there it will moderate itself so at the end of the day our EBITDA under normalized conditions would be as a percentage level a little higher than what it was last year percentage wise last year on a much higher topline, so this is really the summary of our business on Q1 and what we expect for the balance of the year. So I will stop here and I will rely on your questions to clarify, so thank you again for this opportunity. Thank you.

Moderator:

Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have our first question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Good evening. Sir my first question is with respect to the domestic market if you can give more granular details on how the demand is there from infra side, industrial side, SME side how it is compared to say last year or last to last year it will be really great Sir?

Jairam Varadaraj: In the Q1 there was one segment, which was kind of disproportionately significant. I would not say that was a large proportion of our sales I do not want to give the specific numbers; this was compressors required for oxygen generators. Now we were approached by DRDO who had licensed the production of these oxygen generators to L&T as well as Tata Advanced Materials Limited and we were to give a large number of compressors in the months of April, May and June and that continued into July as well and we prioritized this supply. As a consequence we could not supply to certain other segments but it was very gratifying to see most of our customers understood of the reason so they did not cancel orders they stayed with us and took a deferred delivery. So if I take the oxygen piece out and talk about the market the buoyancy and enquiry and orders were very solid across all segments and in industrial we saw activity across all industry verticals even automotive which was challenged, the automotive component suppliers were looking at buying compressors to increase their capacity, so I cannot say that there was one segment that stood out not at all. The first wave we were thinking it will be food and chemicals and pharmaceuticals, but unlike that this was across all so even construction and mining and water well. Water well the regular business has not come back but there was the OE customer segment was very strong for supply of complete packages to African countries and we have a very good share in that market this year. We are hoping that this market opens up this year and I am very glad to say that the new product that we have launched and we have been testing for the last one-and-a-half years has gone very solid traction in the market so when the market opens up we are ready to regain our position in that market this time very, very confident, so all across it was there, there was a pause in the month of May and June on our aftermarket because plants are not running, nobody is going to buy spare parts so that is one more reason why you see there was a challenge on our contributions and that has come back now strongly so I cannot say there is any one industry it is across the board.

Ravi Swaminathan: Got it Sir and would the enquiry levels is it safe to say it would have grown by kind of a double digit number in terms of volumes, etc.?

Jairam Varadaraj: Sales would have grown double digit compared to FY2020 Q1. Now we have grown only 5% or 6% but we would have defiantly done double digit growth it is not for the constraints that we have.

Ravi Swaminathan: Got it Sir and with respect to price increase what could have been the approximate magnitude of price increase that you would have taken and is there any other price increase which might be there on cards to compensate for?

Jairam Varadaraj: Like I said the last price increase was done in June, combined price increase I am talking on average is about 15% over five installments.

Ravi Swaminathan: Is there any resistance from customers given the fact that 15% price increases from the steel side?

Jairam Varadaraj: Obviously there is resistance, it is also a function of a lot of competitors delaying that so customers point to that but the reality is everybody knows every business right in every commodity there has been an increase in price right so this is not something that is ELGi's inefficiency right it is a reality that it is hitting everyone.

Ravi Swaminathan: Got it Sir. Thanks a lot. I will come back.

Moderator: Thank you very much. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Thank you for the opportunity and good performance amidst the challenges. A few questions here on the newer products that we would have launched so whatever you gave outline but if you could also highlight about the oil free compressors how has that been that is one area that you are expecting to change our growth prospect?

Jairam Varadaraj: On our oil free machines that we have two categories of products the conventional two stages dry screw and then our water injected AB series. Now both of them have grown exceedingly well in the Q1 right not only in relation to the prior years but also in relation to the Q4 of last year, which was itself a good year and it is not just in India but globally, so this has been a very positive thing. Now on our AB series we have now expanded in another few months we will be introducing those products. We have expanded the range now from 11 kilowatt up to about 110 kilowatt we will have oil free machines using that technology so it is a very positive thing that we have been sitting on and the growth has been good. I do not want to give specific numbers Bhavin because I do not want that is very sensitive from a competitive point of view.

Bhavin Vithlani: The second question is you did highlight that total price actions of about 15% odd over the last year or so would it be possible to share yielding in some of the key categories, what would be our premium discount to the market leader?

Jairam Varadaraj: The price increases that we have done I think on average a higher than what the competitors have done at least that is what the information is but I have a feeling it is not a question of competitors not increasing it is a question of timing. It all depends on which company is sitting on what inventory at what cost right so the minute they use up old cost then the price increases at times so it is only a matter of time because it is not something that is unique to tell. If you look at cold rolled steel or hot rolled steel you look at scrap everything has just gone through, copper and aluminum all gone through the roof so to answer your question in India are we at a price premium we are not at a premium, are we at a deep discount no not at all. In Europe and US are we at a discount yes we are, is it deep no.

Bhavin Vithlani: The second part is if you could give us an update on motors facility in the previous call you mentioned there were certain challenges lack of material to restart the factory?

Jairam Varadaraj: So the challenge was not lack of material it was the machine that we had ordered with a German supplier and it got stuck in COVID and then they had some technical issues, which continues to keep hampering us even now as we speak that machine has not come, but the team has parallelly developed an alternate method of producing the motor so today we are producing close to 40% to 50% of India requirement is now coming from our motor plant. Now we are still hoping that we will get this machine in once it comes in we will be able to increase that percentage quite significantly. Now it is not a question of raw material it is just a machine the alternative is to do it manually which is a bit laborious and it takes time and therefore the output is not as high as we would like it to be. Nevertheless alternate arrangements have been made by which we are making close to 40% to 50% of the Indian markets total motor required.

Bhavin Vithlani: Over the last year or so we have seen considerable increase in the logistics cost especially the sea freight challenges on the availability front, which could be shorter term, but on a more structural front the policy of most of the Western countries are getting more indigenized and for us we have a large location in India so do you believe may be not in the near term but in the longer term we will be having some assembly operations closer to the customer given the changes we are seeing on the geopolitical fronts?

Jairam Varadaraj: The decision to assemble closer to the customer or manufacture closer to the customer will be a function of the value proposition to the customer it will not get dictated by the current short term shipping challenges right. Now I say that because it does not matter where you are in a globally interconnected trading world whether you assemble in Europe or India or America you will still have shipping now you have shipping of machines tomorrow it will be shipping of parts right so you will still have those issues so that is not a relevant factor in

that decision but you are right there is a geopolitical dimension every country is exhibiting very protective behavior right. So that needs to get factored in, but the more important thing is from a customer's point of view and the third dimension is we are not a company that is producing compressors at European or American labor cost. We are producing compressors at Indian labor cost and that is a large contributor to why our cost structures are low. Now we are working on a program, which I have talked about multiple times in the past where we are able to make compressors by paying salaries that are European or American and still be profitable at the current level. Now that is a product that is continuing to be worked on. Now till such time and we think that is going to take us maybe three to four years to get to that point. Now we are talking about close to a multiple of four times the blue collar employee at the current level not that we are going to pay but that is the cost that we need to be able to absorb and still be profitable. Now it is going to take us about three to four years. Once we are ready there then we can look at it otherwise we start assembling now the cost is going to make you uncompetitive.

- Bhavin Vithlani:** Thank you so much for taking my questions.
- Moderator:** Thank you very much. The next question is from the line of Ritwik from One-Up Financial Consultants Private Limited. Please go ahead.
- Ritwik:** Thanks for the opportunity Sir. Sir a few questions firstly on clarification you mentioned in your opening remarks that you are looking at mid teen topline growth in FY2022 so is that over FY2021 base or FY2020 base?
- Jairam Varadaraj:** Sorry can you rephrase that question please or repeat that question?
- Ritwik:** You mentioned that we are looking to do mid teen topline growth in FY2022 so is that over FY2021 base or FY2020 base?
- Jairam Varadaraj:** FY2021.
- Ritwik:** FY2021 okay sure and is it fair to assume that the current employee cost around Rs.118 Crores on the consolidated level will continue for the rest of the three quarters as well?
- Jairam Varadaraj:** This is what I explained to you. Last year's employee cost was about Rs.412 Crores right and out of that Rs.412 Crores we had a subsidy of Rs.24 Crores right. That is one time the jobkeeper subsidy and the payroll protection program in the US and Australia that is not there now right. So our payroll cost, our employee cost was low to the extent of that, which is not an increase that is just a subsidiary, so if you add that back and then reduce the money

that we have spent about Rs.3.7 Crores on VRS, which is not going to repeat the adjusted FY2021 employee cost is Rs.432 Crores right so against that our expected employee cost for the year this current year is Rs.475 Crores so that represents a growth of round 9% to 10%.

Ritwik: Sure that clarification is helpful. Sir my next question is on the spread between India and the rest of the world how is it in Q1 FY2022?

Jairam Varadaraj: Sorry say that again please I missed you there.

Ritwik: Revenue split between India and rest of the world for the quarter?

Jairam Varadaraj: In terms of sales?

Ritwik: Yes in terms of sales.

Jairam Varadaraj: So roughly the sales today the current run rate is 50:50.

Ritwik: Sir in your opening remarks you mentioned about cost saving initiatives about 200 basis points on the topline so what are these programs can you elaborate on that?

Jairam Varadaraj: So basically we are focusing on like I said variable cost. If you look at our variable cost structure 90% is material cost and the other 10% of our total variable cost is other variable cost like electricity and mall consumables right. So the plan is to take cost out by maybe alternate material, reduction of weight, change in design, renegotiation with vendors, new vendors, so it is a combination of using both technical levers to reduce cost and commercial levers to reduce cost right so it is a very structured program and we are pulling very talented people within our company to head it on a full time basis so I am very confident that we will achieve.

Ritwik: So taking a medium term view in a couple of quarters back you had mentioned that gross margins can be in the range of 47% to 48% so would it be fair to assume that once this raw material cost stabilizes and the cost saving initiatives that we are taking would it be fair to assume that say two years we can do gross margins in the range of 49% to 50% once we realize these cost saving initiatives that we are doing?

Jairam Varadaraj: You are talking at a level of material cost of 50%?

Ritwik: Yes.

Jairam Varadaraj: Material cost hitting 50% is going to be a function of better pricing one as well as lower cost. Now if you look at the 2% that we have planned to get, which we are very confident and if you break that into 2020-2021 number it is going to be already 51.4%. Now when we change our mix to start selling more of oil free machines and more of aftermarket because the more you install machines the more your aftermarket is going to grow hitting that 50% is not an unrealistic target, but in our strategic plan that we had announced to all the analysts and investors where we are talking about hitting an EBITDA of 16% in 2023-2024 is without taking these into account. So that is a purely leveraged driven growth in EBITDA whereas this is going to be an added factor and I had mentioned that even when I made that announcement that these are things that we have not taken into account.

Ritwik: We are looking to do this in 10 to 12 months time right?

Jairam Varadaraj: Yes.

Ritwik: Okay sure and my last question is related to Europe, we are investing to increase our geographic footprint there and investing in personal as well so when do you think that this will fructify in terms of topline?

Jairam Varadaraj: The topline like I said we have made a five year plan and we said at the end of the fifth year we are going to break even and then start becoming positive. Now as far as the topline is concerned and the extent of loss we are better on topline and lower on the loss that we had planned. Europe is really on the right track in the right direction unless we want it go as far as this project is concerned so the final number for Europe is actually the 24% to 25%.

Ritwik: Sure. Okay Sir that is it from my side. All the best and thank you.

Moderator: Thank you. The next question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram: When we do the subtraction of the EBITDA of the consolidated to standalone it shows that around Rs.2 Crores to Rs.3 Crores of loss from the subsidiaries are there in the EBITDA level which of these geographies were majorly impacted in terms of the losses and how do you see, we know that Europe is still in investment mode but is there something that can throw a surprise in the next quarter is where we can turn out even some of your subsidies?

Jairam Varadaraj: Europe is the most significant loss right and the only loss. There is a marginal loss in Gulf which is only a transient thing nothing to be worried about. I do not see it as a surprise that is going to come it is a very small operation so Europe is the only region that is making a

loss and that was very deliberately planned and like I said the actual loss is lower than the planned loss so we are tracking through a good trajectory there.

Renjith Sivaram: What is the outlook from the three major markets like Australia is one major market for us, South East Asia, Middle East and North America how do you look in terms of growth from these markets if you can give some more color in terms of each market, what is the current scenario out there and in North America we are hearing regarding huge spending for infra in United States so will we be beneficiary of that if you can throw some light on that?

Jairam Varadaraj: I am going to respond on a non-COVID situation so Australia on a non-COVID is in a very strong wicket, there are a lot of opportunities that are there, and there is a lot of investment going on in mining as well, so in a non-COVID condition it is a very solid situation. The same thing in South East Asia, it is one of the largest markets outside of India and Australia in that region and we are well placed now, we have built a team, we are very strongly placed with a good team in Malaysia, in Thailand, in Indonesia, in Vietnam and Philippines and therefore once these countries come out of the current situation we expect it to be very positive there. Gulf as I said it is a small market and we are growing. US yes there is a huge stimulus investment package that the government has rolled out. Definitely there will be the trickle-down demand for our products because we both are portables as well as our industrials are linked in some way to the infrastructure plans of that country. Some more directly like portables some kind of indirectly as the capacity to supply to the infrastructure requirements the industrials will also do so we are quite optimistic there.

Renjith Sivaram: We have the whole portfolio most of the portfolio is already there in US or is there any gap?

Jairam Varadaraj: If you look at oil lubricated and oil free we pretty much have the full portfolio, no company has got it 100% they are at 90% odd so huge percentages, but that is an ongoing process of development.

Renjith Sivaram: Sir till now in the domestic screw compressor market one of our domestic competitors Kirloskar Pneumatics seems to be there in the piston compressors, now we are hearing that we want to enter into the screw compressor market in a very aggressive way with our own localized manufacturing facility so how prepared are we for that because one more domestic competition can destruct the current market share so what is your overall thought on this?

Jairam Varadaraj: Kirloskar has not been a stranger to screw compressors; they have been making screw compressors for a long time so this is not anything new. They have technology and they are trying to build machines and if we look at our order loss we are not losing orders to them. It is a free world and if they are going build machines and they make good machines it is good

competition so we will compete with them. We are quite confident of competing. If we can compete with Atlas Copcos and the Ingersoll-Rands of the world I think we can compete with Kirloskar also.

- Renjith Sivaram:** You do not see any major disruption in our market share?
- Jairam Varadaraj:** No I do not see it because it has been going on. At the bottom you have a lot of these companies that are importing complete machines from China and selling them. We lose a little bit but it is not like they are dominated and taken over the market right. Market is growing everyone is participating so it is not like there is going to be a disruption in the industrial structure.
- Renjith Sivaram:** This price hikes which you have taken in the two to three quarters we will see that impact in the EBITDA margin?
- Jairam Varadaraj:** Yes.
- Renjith Sivaram:** Okay Sir all the best for the next coming quarters.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.
- Vipul Shah:** Thanks for the opportunity. Sir what type of EBITDA losses we should expect annually from European operations over the next two to three years?
- Jairam Varadaraj:** I do not have the numbers in front of me Vipul so we had planned and what we had announced earlier was that we are going to invest in the form of losses of about Rs.190 Crores over a period of five years and we are tracking to something lower than that so that is the overall number.
- Vipul Shah:** Okay sure and secondly once this machine which is held up due to COVID once it is delivered what percentage of motor production will be in house, which is now roughly 50% as you say?
- Jairam Varadaraj:** That number is not going to significantly increase it is only going to increase our productivity and our cost because like I said we made alternate arrangements not as a compromise to the volume. We have targeted a certain volume without this machine we had to do it so the machine comes maybe from 50% it will go up to 60% or may be 65%, but the entire production will become a lot more efficient.

- Vipul Shah:** That delivery will depend on the trajectory of COVID only right Sir?
- Jairam Varadaraj:** Well COVID is one and the supplier is having some technical issues we have to get that sorted out quickly.
- Vipul Shah:** Okay Sir all the best and thank you.
- Moderator:** Thank you. The next question is from the line of Dikshit Mittal from LIC Mutual Fund. Please go ahead.
- Dikshit Mittal:** Sir just wanted a little bit more color on the growth guidance that you have given around mid teen because you have also said that you have taken around 15% price hike so that means the whole work will be driven by the realization gain only or will there be volume growth as well?
- Jairam Varadaraj:** There will be growth beyond; the price hike is not only growth that has happened in Q1. There will be growth beyond that price hike.
- Dikshit Mittal:** Sir like when you guide for the gross margins because the commodity prices are an uptrend so you will be making a gross margin in percentage terms or maybe you are targeting six may be per compressor kind of gross margin in your price book?
- Jairam Varadaraj:** I did not understand your question.
- Dikshit Mittal:** When you target a particular gross margin you target on a per compressor basis absolute margin or may be on a percentage basis because when the commodities are rising so that means your gross profit may rise in tandem with commodity right?
- Jairam Varadaraj:** We do not like to keep the profit constant. We would like to keep the profit as a percentage of our variable cost that is how we have done our costing module right otherwise what happens is if I do it as a fixed cost then your EBITDA percentages are dropping right. We do not do our cost in that way we do it as a percentage contribute.
- Dikshit Mittal:** Okay thanks a lot.
- Moderator:** Thank you very much. We have a follow in question from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

- Bhavin Vithlani:** Thanks for the opportunity again. The question is on the US wherein we had two acquisitions so if you could give us the update of both these subsidiaries and then we had also targeted to do joint ventures with local people to increase our distribution so over the last one year if you could give us a progress that will be useful?
- Jairam Varadaraj:** The acquisition that you are talking about is the first one was 2012 December that is the pattern so are you asking about the performance of patterns?
- Bhavin Vithlani:** Yes patterns and the second one which we had announced.
- Jairam Varadaraj:** Second one was two years ago, which was Michigan Air right. Now Michigan Air is growing. Patterns are also growing, but like you know that in patterns there was a competitive action that dislocated our business and our turnover dropped and now we are picking it back up and we are climbing it progressively back to the levels it was earlier right, so it is on the right trajectory. So Michigan Air is also doing well and it is on the right trajectory. As far as the joint ventures are concerned, we have joint ventures in five locations and all of them are growing and they are tending towards profitability a lot earlier than we had planned, so these are good regions that we have chosen in terms of potential and we are partnered with the right people who have the market and domain knowledge so it has been a very positive experience.
- Bhavin Vithlani:** Right sure but just a followup here. In US in terms of the distribution reach that we would target covering the major industrial centers so as a percentage where would we be currently?
- Jairam Varadaraj:** In terms of the defined top 40 distributor served areas if I have to make a judgment in terms of the quality of the presence we are only at around 20%.
- Bhavin Vithlani:** Any target of getting too closer to the optimum level over the next level over the next couple of years?
- Jairam Varadaraj:** There is no optimal percentage since you asked the question I gave you a rough idea but our goal is as part of our CK2 aspiration as well as our strategic business plan to be strongly present in the top 40 of the distributor served area right. Can I give a percentage no I cannot because it is all a function of what the opportunity is available. If everything was in my hands then I will put a percentage down but a lot of it is in the hands of independent distributors. They do not come on board whether there is an opportunity for us to incubate joint ventures like we have done other people willing to coming to coming on board so it is quite a few variables that are there.

- Bhavin Vithlani:** That helps Sir. Thank you so much for taking my questions.
- Moderator:** Thank you very much. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Kamlesh Kotak for their closing comments. Over to you Sir!
- Kamlesh Kotak:** Before that I just want to understand one broader perspective now that it is one year since the number two and number three global giants have amalgamated how the competitive landscape has changed, you see anything that has changed on ground in terms of the competitive landscape from IR and Garden Denver?
- Jairam Varadaraj:** I do not think there is any change in the competitive landscape in a significant way across the board globally. In specific markets there are opportunities for companies like us. Now when you have two companies that have come together both of them have a set of distributors and when they put the thing together one of the synergies that they like to release is to reduce their channel right and make the channel more efficient so when that happens then there are channel partners who are looking for alternate products so those are opportunities that come right so I would say is it there across the board in all markets no there are pockets in which that happens right so other than that of course when two companies come together their profitability improves because there are a lot of synergies, duplications that they eliminate, which is what they did and that is how they have increased their profitability.
- Kamlesh Kotak:** Sure and just to update how has been the new product which we launch in terms of the water well series how has been the response to that in the market and how has been the market fairing there?
- Jairam Varadaraj:** The market right now is very dull right. There is hardly any procurement of new machines. It is the old machines that are continuing to drill because COVID conditions, cash with farmers, there are a lot of conditions. Now there seems to be some semblance very initial stages of some green shots so that is on the market side. On our product we have run this product now for almost a year and a half right and we have had actually competitors and customers who actually ran the machines in their drilling and feedback has been outstanding both on performance and in terms of efficiency and cost of drilling as well as the reliability of the product so it has been a very positive response so we are ready. It is not like ELGi is an unknown brand. All customers know it and it is a very small community, when something good happens then news spreads fast, when something bad happens also news spread fast, so something good has happened now and I think the news has spread well. We have got to wait and see,



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Kamlesh Kotak: Thanks Jai for your insightful discussion and thanks participants for joining for the call. Any closing remarks you want to make Jai?

Jairam Varadaraj: There is one area that I did not cover which I would like to cover, which I forgot is our debt position. Compared to March, June our debt levels have gone up by Rs.10 Crores so from Rs.100 odd Crores it went to Rs.110 Crores, now in July we are lower than March now so it was just one of those periods that we had to go through where we had to over stock on inventory because of supply challenge, now in July that is back so debt levels are going to start going down again.

Kamlesh Kotak: Thanks. So with that we conclude the call. Thanks everyone for joining. Have a good day.

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