



November 12, 2024

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

Through: NEAPS

Through: BSE Listing Centre

Dear Sir/Madam,

Subject: Transcript of the analyst conference meet - financial results for the quarter ended September 30, 2024

NSE Scrip Code : ELGIEQUIP / BSE Scrip Code : 522074

In continuation to our letter dated October 22, 2024, pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of Analyst Conference Meet held on Tuesday, November 12, 2024, at 10.30 AM (IST).

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

Devika Sathyanarayana
Company Secretary and Compliance Officer

Encl.: a/a

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Q2 2025 Earnings Call

Company Participants

- Jairam Varadaraj, Managing Director
- Unidentified Speaker

Other Participants

- Harshit Patel, Analyst, Equirus Securities
- Kamlesh Kotak, Analyst, Asian Markets Securities
- Unidentified Participant

Presentation

Operator

Good morning, everyone. Welcome to the Elgi's Quarterly Result Update Call. Joining us today is Mr. Jairam, who will be addressing us on how the quarter has gone by and how the future outlook looks like. So without wasting much of time, I would ask Mr. Jairam to continue with his presentation. With respect -- once his presentation is over, we'll be moving towards Q&A.
(Operator Instructions)

Sir, I leave the floor up to you, sir.

Jairam Varadaraj {BIO 2381829 <GO>}

Thank you very much. Ladies and gentlemen, as always, it's a pleasure for me to be with you and share our second quarter results. Just allow me to present the deck. I hope everyone can see this. Can you?

Operator

Yes, sir, we can. We can see.

Jairam Varadaraj {BIO 2381829 <GO>}

Okay. So, yeah, there it is. So let me start with the -- at the EBITDA level, a reconciliation like we normally do. Our EBITDA is slightly lower than the same quarter in the previous year. We'll explain to you what are the reasons for it. But assuming that we had the same ratios that our EBITDA for the current level of revenue, which is almost 9% growth, should have been about INR1,812 million. And so, there is a gap of close to about INR400 million. Of this gap, about INR112 million is because of increase in people cost which is a 7% increase, which is quite normal. But the biggest increase has been in our overheads, which is almost INR300 million,

which is a 24% increase. No surprises here. We are investing in certain strategic initiatives, one of which was a go-to-market initiative in India.

We also had a finance transformation initiative that we did, which is ongoing. And, because the freight increases happen, freight costs shot up because of various problems in the freight routes, we've had to absorb the freight to remain competitive. We believe that these freight rates are going to come down and therefore, we'll be able to normalize in the future quarters. So out of this approximately INR300 crores, a little over half is kind of one-time. And therefore, the profitability, I would say, overall has been very good.

Now compared to the previous year same quarter, why is it low, is because in the previous year, we had a huge recovery from a very bad first quarter in the US, the North America market, in the second quarter. So we lost big in the first quarter because of software ERP issues which we caught up in the second quarter. So there was a huge recovery or backlog that came that was reflected in the second quarter of last year, and that's why you see a big difference. So on a steady-state basis, we are doing quite well.

Moving on, on revenue, India of course, has done exceedingly well in the quarter. North America continues to be a challenge, but we are out of the woods. We are beginning to come back slowly in most of the verticals except portables, which is kind of a seasonal thing. We are going through a slump in that market. It will probably last for another year. But our industrials is back being on a very strong wicket. Our distribution business is also recovering very strongly and our Patton's Medical business is also recovering very strongly. Europe has done better than last year. We have trimmed the organizational size and cost. We are on track to break even. And so, things are looking good in Europe. Australia has been a big challenge this year. The economy has been in very bad shape and therefore, we're struggling. But I think the second half should be better, is our expectation, because we have certain orders, backlogs, that we are quite confident of.

Automotive equipment business did well. In fact, I think the second half will be better for them since we have got into new lines of business like test lanes which are required for clearances for testing centers -- vehicle testing centers, that a lot of the states are insisting on. Middle East has been very strong -- continues to be very strong. Very -- relatively lower base, but very strong. Brazil looks lower than last year because last year was a record year for us in Brazil, but I think the second half in Brazil will be good because there were some, again, transportation issues and clearance issues which resulted in us not being able to invoice. Southeast Asia is small but it's slightly better than last year.

Moving on to -- at the PBT level, you would notice that at a PBT level, we are doing well. If you look at Q2 of this year, our PBT is at 1,307 and Q2 of last year was 1,300, almost flat. But like I said, if you take away the one-off benefits that we had in the last year's Q2, then this Q2's performance is very good. But if you look at the trending over quarters, I think we are in a very strong position for the balance of the year. So these are other things.

So as far as revenue -- in terms of guidance for the balance quarters of the year, I think, realistically we can continue to reproduce Q2 definitely in Q3, but there are some headwinds that we are facing in India. Europe will continue to be strong. America will recover for sure.

Australia will be better. My concern is in India we don't know what will be the impact. One of the key verticals that we recovered from losing market share, we gained back a dominant share is water well.

Water well is softening. So we will definitely face the impact of that in Q3 and Q4, but our go-to-market initiative which we did pilots in Q2 will get rolled out across the country in Q3 and Q4. So we expect that that could balance out potentially what we lose in water well. Plus, our aftermarket is also in a very strong wicket. So I'm optimistic that Q3 will replicate Q2 and we expect that Q4 will be better. That's the expectation. Now, the sales mix continues to remain approximately the same between compressors and automotive equipment. And if you look at the geographical split, India and the Rest of the World is roughly 50-50, but continues to be roughly in the same ratio.

So the consolidated financials at a PAT level, we have done better than the last year's PAT. Our tax rates are a little lower than the last time, primarily because of better -- slightly better performance in the subsidiaries compared to the previous year. And if you look at the first half, we are definitely better than the previous year.

So the net cash position is an area that is quite disappointing for us, as part of this whole dislocation in freight; freight lead times, freight costs, and the uncertainty around the freight, we've had to beef up on our inventory of finished units in the various subsidiaries. Now -- we are now creating a strategic initiative to really come down hard on our inventory and I'm hoping that by March end, we will have a far better cash position than what it is right now. So this is an area of focus for the company for the next two quarters.

So this is my presentation. I will now rely on your questions to clarify your doubts, questions, clarifications. Thank you.

Questions And Answers

Operator

Thank you, sir. (Operator Instructions)

A - Jairam Varadaraj {BIO 2381829 <GO>}

There is a person who phrased his question, Harshit Patel.

Operator

Sir, first question we have is line from Harshit Patel. Harshit, you may please go ahead with your question.

Q - Harshit Patel {BIO 20182663 <GO>}

Thank you very much for the opportunity. Sir, my first question is on the rising trends in the Indian market. I believe you have highlighted in the past that we had taken adequate or even slightly more than adequate price hikes, and hence we did not plan to take further price hikes even if the commodity prices increase from here. On the contrary, there has not been much incremental inflation in most of the commodities. So have we maintained the prices at a broader basket level or increased or decreased it, how it has been?

A - Jairam Varadaraj {BIO 2381829 <GO>}

We have been able to sustain our prices, Harshit. We anticipated that there could be a drop in our margin if there were increases in commodity prices. But that did not happen and therefore, we maintained our pricing. And if you look at the growth in revenue, I would say, close to almost zero contribution from pricing. I would say, about -- out of the 9%, I would say, 6% is from volume growth and about 3% would be the mix in products.

Q - Harshit Patel {BIO 20182663 <GO>}

Understood. Sure. Sir, the second question is on the roadmap of the margins in all the North American businesses combined. So Patton's, as well as distribution and industrial businesses over there. So are you confident that we will be able to break even in FY25 and over a three to four-year period, what could be the sustainable margins in this geography?

A - Jairam Varadaraj {BIO 2381829 <GO>}

So we will definitely -- we are moving towards definitely profitability on a month-on-month basis, Harshit. So I'm quite confident that we will break even. I don't have any doubts about that.

As far as -- at an EBITDA level, our industrial business is quite strong. I don't want to get into specific percentages, but I think, overall, at -- on a steady state basis in the past, we were at around 10%, and it's for me not a difficult thing to get back to that level sooner than later.

Q - Harshit Patel {BIO 20182663 <GO>}

Understood. Sir, just lastly, wanted to understand the types of compressors that we sell to the exports markets such as USA, Europe, in Australia. So are these basic reciprocating compressors or these are mainly screw compressors? Also if you could share the salience of oil-free screw compressors, both in the domestic as well as overseas markets, that will be very helpful.

A - Jairam Varadaraj {BIO 2381829 <GO>}

Yeah. So we hardly sell any reciprocating compressors outside of India. Very few. So bulk of our sales is rotary screw, oil lubricated. We also sell -- increasingly we are selling more of oil-free, both are AB series as well as our OF series, both in India as well as outside the country. Our performance in oil free, if you remember there was a strategic initiative in India. We put together a very clear go-to-market strategy and that has really helped us and we have a very strong market position in India at the moment.

Q - Harshit Patel {BIO 20182663 <GO>}

Sir, the reciprocating compressors that you are selling in the domestic Indian market, within that, is there a bifurcation in terms of oil-free versus oil-lubricated, or these are mainly oil-lubricated only?

A - Jairam Varadaraj {BIO 2381829 <GO>}

There is -- these reciprocating compressors that we make are low-horsepower reciprocating compressors. And there is a segment that is oil-free and there is a segment that is lubricated. We play in both the segments.

Q - Harshit Patel {BIO 20182663 <GO>}

Understood. Perfect. These were all my questions. Thank you very much and all the best.

A - Jairam Varadaraj {BIO 2381829 <GO>}

Thank you. Thank you.

Operator

(Operator Instructions) Sir, there is one question in the Q&A box, which says during the last conference call you had mentioned about AI development in your products. Is there any further development in that area?

A - Jairam Varadaraj {BIO 2381829 <GO>}

Nothing, I would say as significant movement. We are beginning to install a lot more machines in the field with our Air-Alert IoT system. And the idea is to first collect a lot of data because without data you can't work with AI in terms of letting it learn the algorithm that we put in. So it's still some ways away.

Operator

Sir, there's one more question where it says, sir, does the global administration change Elgi's business operations and can you expect any change in profitability?

A - Jairam Varadaraj {BIO 2381829 <GO>}

I don't know whether I understand the question. Global administration, if you mean the overheads of operating globally. Yes, the overheads outside the country are significantly higher and that's why the profitability of the overseas operations are not as high as India. But there is a huge opportunity for growth in those markets. And we have invested in those overheads, primarily to capture that growth. And that growth will take time. We have gained some good traction in these markets. But it will take time for us to start realizing the profitability that we are seeing in the Indian market. But it is a matter of time. You install -- you create more installed base, you get the aftermarket revenue from that installed base which is far more profitable than the sale of equipment. And that's when the inflection happens in your profitability.

Operator

Sure, sir. Sir, we have another question from Harshit. Harshit, please unmute yourself and go ahead.

Q - Harshit Patel {BIO 20182663 <GO>}

Thank you very much for the follow-up, sir. Sir, could you share an update on the vacuum products business? We were trying to incubate the market with key customers by installing the DVP manufactured products first. So how has been the response from the market and what will be our go-to-market strategy?

A - Jairam Varadaraj {BIO 2381829 <GO>}

So we have completed the collaboration and the transfer of technology. Our team has visited DVP, they spent sufficient amount of time to understand the designs and the manufacturing process, and they are back here. And the indigenization process has started quite strongly. In the meantime, we have created a small business vertical for vacuum with the leader and sales people -- sales and service people. And we have contracted all the major OEMs of vacuum pumps. And we've already got our first orders coming in. So -- but in terms of talking about numbers, it's still early days.

Q - Harshit Patel {BIO 20182663 <GO>}

So whenever it will become slightly meaningful, you will include that in the compressor segment or you will carve out the new segment in terms of reporting that?

A - Jairam Varadaraj {BIO 2381829 <GO>}

As far as -- it will still be in the compressor segment but we will -- internally we will analyze it separately because of the focus, and I will certainly report that to the shareholders separate.

Q - Harshit Patel {BIO 20182663 <GO>}

Sure. Sir, just lastly, on our CapEx plans, I believe you had indicated that we will begin the consolidation of manufacturing footprint process by the end of FY25. So have we started on that and are we on track to complete the entire relocation in next three to four years? That would be my last question.

A - Jairam Varadaraj {BIO 2381829 <GO>}

So the entire location, Harshit, if you remember, I said it'll take five to six years, not three to four years. The first phase has already started. We have -- earth-breaking has already -- has been done. The contracts have been awarded for both the structural work and the civil work. So we are hoping in another year's time the first phase, which is really two factory buildings for our aftermarket part center and our portable compressor assembly line which is currently in the city plant, those two will be ready.

Q - Harshit Patel {BIO 20182663 <GO>}

Understood. Perfect. Thank you very much for answering all my questions, sir.

A - Jairam Varadaraj {BIO 2381829 <GO>}

Sure.

Operator

Sir, next question we have is from the line of Shirom [ph]. Shirom, you may please go ahead with your question.

Q - Unidentified Participant

Hi, good morning sir.

A - Jairam Varadaraj {BIO 2381829 <GO>}

Hi, Shirom.

Q - Unidentified Participant

Hi. Sir, a few questions. If we could start with, what you're seeing in terms of how demand interaction is picking up across your various domestic segments, both from a medium as well as a long-term point of view. And specifically, if you could comment on the opportunity in railways, the opportunities in maybe oil-free compressors for electronics and semiconductor manufacturing, and if there is any opportunities in solar -- solar cell manufacture -- supplying compressors for solar cell and module manufacturing, given there is a huge ramp-up in capacity expected in that area as well. That's my first question, sir.

A - Jairam Varadaraj {BIO 2381829 <GO>}

Sure. Yeah, okay. Let me start with the overall market. The overall market for us has been quite -- industrial market has been kind of muted and our growth has come purely from our own go-to-market initiatives to increase our share of our -- share of the market. So the first half is reflective of that. There are certain verticals like our construction and mining and water well that have done very well in the first half, primarily first quarter, and water well in the second quarter is beginning to soften. And I think the third and fourth quarter, it will really be soft as far as water well is concerned.

Railways itself is a steady-state business. It's not a big number. It continues to go along. The order that we got from Siemens, it's still in the development stage. We have completed the development of the machine and it is going through various testing. So maybe next financial year we will get some of that business. But it's -- again, it's not a significant annual revenue.

As far as oil-free is concerned, yes, we are playing in the semiconductor market -- opportunity, still early days but we are -- quotes are in, we are in touch with various customers. We already have good installations in the semiconductor industry in Malaysia, for instance. So we are using all those references to gain entry into the segment. Solar is nothing special in terms of oil-free but it is -- there are compressor requirements in manufacturing just like in any other manufacturing and we are participating.

Q - Unidentified Participant

Sir, if you could kind of highlight maybe what you're -- over the next two, three years where you see your top two or three industries that will be driving demand, specifically within India itself, if that's something you could highlight.

A - Jairam Varadaraj {BIO 2381829 <GO>}

Sure. Shirom, one of the advantages of the compressor business is it is not heavily dependent on any one industry. So we have -- our industry portfolio is very diverse. I don't see any one industry contributing more than 2% or 3% of our total revenue. So that's in a sense is a low-risk business. So I don't expect that to change just because of these large PLI projects coming in semiconductor or in solar. I don't see that shift happening because the amount of the compressors required in cement, steel, pharma, automotive, generally, it's quite significant. And the entry of these new industry verticals are not going to change it.

Q - Unidentified Participant

Sure, that's very helpful. And just one more question on the Chinese competition that you were facing in the low-end compressors and you had a strategy to kind of develop your own product to take that on. So if you have any update on that and how the Chinese competition is shaping up, because across industries we're seeing increased Chinese dumping. So if you could comment on that.

A - Jairam Varadaraj {BIO 2381829 <GO>}

Sure. I mean, in the last call I talked about an increasing presence of the low-cost Chinese compressors in the segment -- in the compressor segment. Our current products are not -- will not be able to compete with them because these customers buy purely based on price not on performance. So we have developed a machine and the machines -- we have put quite a few machines in the field for validation. So we hope that in the fourth quarter, we will be ready to launch those products into the market. But it's not just the product but it's the entire marketing program that has to be redesigned because our existing network, both our own salespeople and our channel salespeople are really not playing in that segment where the Chinese players are selling. So we need to uncover that market, which means it's a completely new go-to-market strategy, which is something that we need to recoup.

Q - Unidentified Participant

So has there been any kind of -- could you quantify the impact, because the -- you would be entering this low-cost segment and it's likely to be a low-margin business, to kind of maintain

your market share, I guess. So could you quantify the impact that it's had up till now on your sales or market share (multiple speakers)?

A - Jairam Varadaraj {BIO 2381829 <GO>}

It has not affected our sales, because we are not playing in that segment. Right? So it's a segment that exists below that is -- the market has expanded but the expansion of the market has happened disproportionately in the small of the lower cost. So we are not playing. If you look at the large established players in the compressor business and if you look at their order loss statement, very little will be order loss to these Chinese because we are not playing there, right? It's a different segment by itself. Right? Now in order for us to compete there, we have to develop a new product which gives us the same margin, but it's aligned to the requirements of the market, which is what we have done. Yeah. So in our estimate, the total market size is anywhere between INR150 crores to INR200 crores, right, is the size of the low-cost market -- low-cost Chinese suppliers.

Q - Unidentified Participant

Sure. Okay, that's very helpful. And I'll get back in the queue for any further questions. Thank you so much.

Operator

Sir, the next question we have is from the line of Mr. Salil Desai [ph]. Salil, you may please unmute yourself and go ahead with the question.

Q - Unidentified Participant

Thanks. Good morning Dr. Varadaraj. Sir, my question is about your demand trends in Europe. The news (technical difficulty) operations in Italy and elsewhere. How are you seeing (technical difficulty)?

A - Jairam Varadaraj {BIO 2381829 <GO>}

Sure. The economic situation has been -- is muted but it's been muted for almost a year-plus now. And I think there is a slow recovery -- with interest rates coming down, there is a slow recovery. So definitely the situation is better than what it was in the past. So that's point number one. Point number two is we have introduced -- seem Europe is an extremely energy-conscious market. And we have introduced some outstanding products which are state of the art and the best in terms of the energy footprint. So we are beginning to see traction for those products because it speaks the language of the market and the compelling factors that are critical in the market right now.

Q - Unidentified Participant

And sir, secondly, it might be early days but with the US economic policy changing on (technical difficulty) tariffs, does that impact in any case (technical difficulty)?

A - Jairam Varadaraj {BIO 2381829 <GO>}

Well, during the first Trump era, the import duty was imposed on Indian products and compressors was also included in that. So right now, we are operating in the US market with an import tariff on compressors. Now, is he going to increase it further, we have to wait and see. Whether -- what he's going to do with tariffs on Chinese compressors, we'll have to wait. So it's a little vague now. We can only speculate, but we are quite confident, our cost structures are quite strong that we'll be able to weather these without any competitiveness involved.

Q - Unidentified Participant

Understood, sir. Thank you so much.

Operator

Yeah, Salil, is there any other question from your (technical difficulty) I don't think so we are able to get Salil, sir. We'll probably move to the next person in the queue.

A - Jairam Varadaraj {BIO 2381829 <GO>}

Yes.

Operator

Naveen [ph], you may go ahead with your question. Naveen?

Q - Unidentified Participant

Can you hear me now, sir?

A - Jairam Varadaraj {BIO 2381829 <GO>}

Yes.

Q - Unidentified Participant

Good morning sir. Thanks for the opportunity.

A - Jairam Varadaraj {BIO 2381829 <GO>}

Morning.

Q - Unidentified Participant

Just wanted to get your view on the vision for the foreign subsidiaries, sir, and their path to profitability. Also wanted to get a feel of, is it more of a manufacturing vision that we have, or is

it for distributionship, sir? Any insights into that would be helpful. We were basically hoping that one of them would turn around and then add to the EPS. So just asking.

A - Jairam Varadaraj {BIO 2381829 <GO>}

So, if you look -- wind back, Naveen, to before the disruptions we had in the US market which was purely internally created with an ineffective implementation of our ERP. We made a mess there. Before that, the US was contributing very positively to our profitability, right? Now, at that time, there was a heavy bleeding of profits -- I mean losses. There were losses in Europe which was taking away the overall profitability. Now, Europe is breaking even and the US is going to come back to its earlier levels of profitability. The combination of these two will be a healthy situation for the future of the company as far as the profitability is concerned.

Now, we don't have any specific manufacturing plants in either Europe or the US. We do manufacturing in Rotair which is an acquisition that we did. We make portable compressors there and those compressors are actually sold in Europe and the US and Australia. They are made in Italy. So our manufacturing footprint is primarily in India with a little bit in Italy. I don't know whether I've answered your question.

Q - Unidentified Participant

Yes sir, thanks for the candid answer. That's helpful. Thank you. That was my only question, sir.

Operator

We have a follow-up from Shirom. Before that, sir, we'll take a couple of questions from the chat box. Sir, what percentage of our revenue comes from oil-free compressors and where do you see it moving in next two, three years?

A - Jairam Varadaraj {BIO 2381829 <GO>}

So this is a big competitive information, so I would prefer not to answer that in very specific terms. But general direction is that our growth in oil-free is far higher than the growth in oil lubricating. That is point number one. Point number two is, I would say, 90% of our presence in our oil-free revenue is from India. Right? So we still have a long headroom to grow this business outside the country, but it requires a completely different strategy compared to oil-lubricated machine. So right now, our focus and our go-to-market is on oil-lubricated because the market is big, we are already present there and we are investing resources focused on building that market. So we are doing opportunistic sales of oil-free in markets outside the country. So India is the focus, our growth rates are there up very strong, higher than others. And so that's the general direction I can give.

Operator

Yes, sir. The next question in the chat box is, sir, how do you see the demand shaping up across end-user industries for India and other geographies? Can you highlight how the CapEx cycle is playing out?

A - Jairam Varadaraj {BIO 2381829 <GO>}

So that's a very broad question. Like I said, the compressed air industries like electricity is a wide cross-section of industries that consume compressed air and therefore compressors. So there is no one industry concentration in the business. So which is the positive thing about the compressed air industry. The negative part of that is the identity and the visibility of customers is not as transparent as in a business which focuses on one industry, let's say, textiles, where the visibility is high. So here customers are diffused across all geographies, all locations. So going and finding customers is the biggest challenge. But on balance, it's a better one because you're not risk -- you don't have a risk of over-dependence on one industry.

Now, as far as the CapEx cycles are, I mean, each country has a different kind of a cycle. There is no one global cycle that is there. I would say, with the election of the new president in the US, at least the uncertainties of the presidential election which was -- kind of made a pause in the industrial decisions, investment decisions, that's going to get released. And generally speaking, Republicans are looked at as pro-business. So there could be a positive sentiment. So we need to wait and see. But overall, I would say, the US thing is positive because they're coming out of certain high inflation, they're trying to control it. So therefore that could be a positive environment.

Europe is still at the bottom, but it is not at the lowest part of the bottom, like it was a year ago. If the Ukraine war gets resolved and the Middle Eastern conflicts are resolved, I think Europe will come back. And I think that's also -- I don't think it's going to get worse than this. Australia, on the other hand, is going to go through a long trough and then it's going to come back. But, these are parts of this -- part of business cycles. There's nothing you can do. Yeah.

Operator

Yeah. Sir, the next question from the chat is, we spoke about some headwinds expected in India in H2. Can you please explain?

A - Jairam Varadaraj {BIO 2381829 <GO>}

So I'm not sure what are the causes for it, because on one hand, there is this overall optimism about India, but you have to look -- you have to sift through it and really look at the numbers. The economic growth and the industrial growth is not as -- I mean, it's not bad. It's 5%, 6%, but it's not the 7%, 8%, 9% that people were all expecting. So to that extent, there is a certain muted -- the sentiments are a little muted. The first half, we saw some challenges on the industrial side. We are not -- it was not commensurate with the kind of the messaging that came about India. We didn't see that in the first half. We expect the second half for Elgi to be better irrespective of the market, because of the go-to-market initiative that we have launched, which gives us greater presence in the market. So that's the thing.

And the second part that I talked about is the water well segment. That is a business cycle. That industry goes through a period of capacity creation and then there is a lull before the capacity gets used up and then there is a rebuilding of it. So we are right now on the downward slide. So maybe for another year or two, there will be a lull before it comes back up.

Operator

So lastly in the chat box is, if we can give some direction on how we should look at the sustainability of our operating margins.

A - Jairam Varadaraj {BIO 2381829 <GO>}

I think the operating margins are in good hands. They're pretty solid. I don't see any challenges to that. Like I said, the biggest reason why our EBITDA is not higher than what it is in the second quarter is because of our investment in certain transformation projects. So in line with that, I would also like to disclose that going forward there is a plan in the company to invest 1% of our revenue, approximately INR30 crores, for the next two years -- INR30 crores each in each of the years for the next two years in our transformation projects. These are projects, will be go-to-market. There will be software-related investments to bring new direction in terms of operational efficiency, decision support systems, as well as process improvements, because the enabling functions have fallen behind the business in our company. So we need to get them ahead of the business, so that we have a solid platform out of which we can operate.

Operator

That is it, what we have in the chat box right now. I'll -- the next question, sir, I'll ask Mr. Vipul Kumar [ph] to go ahead. Vipul, you may unmute your mic and go ahead with your question. Vipul?

Q - Unidentified Participant

Yeah. Am I audible?

Operator

Yes, yes, you are audible.

A - Jairam Varadaraj {BIO 2381829 <GO>}

Yes, you are.

Q - Unidentified Participant

Yes sir. So this is continuation of my question on oil-free compressors. Since we have very negligible presence in international market, so whenever we decide to go big for oil-free compressors in international market, will it require a very big marketing expense or CapEx or it will be a very light CapEx -- with very light CapEx we can launch those compressors in international market? Some clarity will be (multiple speakers).

A - Jairam Varadaraj {BIO 2381829 <GO>}

Yeah, there won't be CapEx, Vipul, it will be OpEx. We will need a sales organization because typically, oil-free compressor -- customers of oil-free compressors prefer to deal with the OEM directly. They don't like to work with distributors. So right now, we are working our entire sales outside of India is through distributors, whereas all the sales in India is direct, by our own sales organization. Now, to replicate that in global markets will require investment in salespeople which is quite expensive in markets in Europe and the US. So we will do that only after we have gained solid presence in the oil-lubricated, generating very good surpluses and which we will use to invest into growing that OpEx.

Q - Unidentified Participant

So it's an event two, three years away, sir?

A - Jairam Varadaraj {BIO 2381829 <GO>}

I can't say specifically, Vipul. It will be not something like a flipping of a switch. We will do it gradually as and when surpluses emerge in various regions. Yeah.

Q - Unidentified Participant

And sir, lastly, directionally, can you comment on the performance of European business this quarter?

A - Jairam Varadaraj {BIO 2381829 <GO>}

So, directionally, we have done better than last year in terms of top line and bottom line, significantly better than last year. And the trajectory for this year is to break even. And we are on that track. So overall, it's a good situation.

Q - Unidentified Participant

Do you mean to say that in FY24-'25, we will break even at EBITDA level for European business?

A - Jairam Varadaraj {BIO 2381829 <GO>}

Yes.

Q - Unidentified Participant

Okay, sir. Thank you and all the best.

A - Jairam Varadaraj {BIO 2381829 <GO>}

Thank you.

Operator

Sir, we'll take the follow-up question from Shirom. Shirom, you may please go ahead with your question.

Q - Unidentified Participant

Hi. Thanks for the follow-up. I just wanted to touch upon your ATS Elgi -- the ATS Elgi business and what you see as a top line and margin outlook for that over the next -- this year and over the next couple of years and what will be the key drivers of that business.

A - Jairam Varadaraj {BIO 2381829 <GO>}

So our automotive equipment business at a very broad level, has three, you could say, verticals. One is the traditional automotive equipment that we supply for servicing passenger vehicles, commercial vehicles, and two-wheelers. That's one traditional vertical. The growth in this vertical is a function of the growth in the automotive industry. Right? So if you look at the first half, the automotive industry had very good growth in the first quarter. The second quarter was a bit of a challenge. So we see that pattern of few dealerships being -- outlets being open, new service outlets -- dealerships being open. That has kind of muted a little bit in the second quarter. So you see our performance from that vertical coming down as well.

Then we have the second, which is the tyre shop thing, which is all these independent tyre shops that do the alignment and sales of tyres of various brands, whether it is JK, Apollo, MRF, Michelin, they all have it. We are approved by most of them. And that is a vertical that has grown reasonably well. There is a lot of opportunity there for additional growth.

The third vertical, which is the emerging vertical, which is our test centers. The government now, as part of scrapping vehicles is on -- making decisions on the health of the vehicles, has compelled the setting up of testing centers. And all the states are now opening up these test centers. And we are well positioned to make the equipment and be part of the consortium that will deliver the solutions of the complete test center. That has been -- that we expect to have a good growth in the second half and in the future years.

There is also another vertical which is still very nascent, which is the vehicle scrapping center. Again, we have a complete set of products and solutions for that. We have set up one center -- I think one or two centers in the country, and that could be a huge growth area in the future. So overall, if I -- excuse me -- overall, if I look at the growth, I think the automotive equipment business could grow anywhere between 12% to 15% for the next two to three years. And profitability will remain pretty much at this -- at the current level.

Q - Unidentified Participant

Sure, sir. That's very helpful. Thank you. And one more question on -- if you could kind of shed some color on the overall domestic market in India in terms of the mix between various types of compressors, between reciprocating, centrifugal, rotary screw, and which one is the large one -- which of these segments is expected to grow, be the main growth driver going forward. And if you could share this both on India as well as a global level, if possible, which type of compressors are seeing the fastest growth and where Elgi is positioned in each of these segments.

A - Jairam Varadaraj {BIO 2381829 <GO>}

So the largest market -- largest segment globally and in India is the oil-lubricated screw compressors. And we are positioned end to end with a complete set of products which are world-class and world-competitive. Right? So I would say, if you take the entire compressor equipment market size, I would say, close to 60% would be -- 50% to 60% would be oil-lubricated screw compressors. Then you have -- the next biggest would be oil-free screw compressors, would be maybe another 25% of the world -- of that market. Then you come to the centrifugal compressors, which could be between 10% to 15% of the market. Then you have the reciprocating which is probably 5% of the market. So this is how the split is. We are present solidly on the oil-lubricated screw, the oil-free screw, and the reciprocating. We don't have -- our own product in centrifugal, we sell Korean made centrifugal compressors in the Indian market.

Q - Unidentified Participant

Okay, sure. And just last question on your aftermarket business. What is the contribution of aftermarket at both standalone and consolidated level, if you could share that. And if there is any movement from the earlier 25%, 26% of standalone and 13%, 14% at consol level, has there been any significant movement?

A - Jairam Varadaraj {BIO 2381829 <GO>}

It's pretty much at the same level, Shirom. I have not made a significant change in those perceptions [ph].

Q - Unidentified Participant

Okay, sure. Thank you. Those are all my questions. Really appreciate all the answers.

A - Jairam Varadaraj {BIO 2381829 <GO>}

Thank you.

A - Unidentified Speaker

Sure. I think, sir, that is what I have from the question queue as well as from the Q&A box. I would like Kamlesh, sir...

Q - Kamlesh Kotak {BIO 15156388 <GO>}

Hello?

Operator

Yes sir. We can hear you.

Q - Kamlesh Kotak {BIO 15156388 <GO>}

So thank you everyone for logging in. Thank you, Jairam, for a detailed discussion on the company's business and financial performance. With that, we conclude the call. Thank you, everyone. And you may log out now.

Operator

Thank you.

A - Jairam Varadaraj {BIO 2381829 <GO>}

Thank you very much, Kamlesh for hosting us. And great to talk to everyone. Thank you.

Operator

Thank you.

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