ELGi

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To

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Dear Sir,

Sub: Intimation of transcript of the Investors conference call held on 24/05/2021 under the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015.

In accordance with the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, please find below the transcript of the Analysts and Investors conference call held on 24TH May, 2021 at 04.30 PM IST.

This is for your information and records.

Thanking you,

Yours faithfully,

For ELGI EQUIPMENTS LIMITED

RAGUNATHAN K
COMPANY SECRETARY

“Elgi Equipments Limited
Q4 and FY2021 Earnings Conference Call”

May 24, 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 Elgi Equipments Q4 & FY2021 Earnings Conference Call hosted by Asian Markets Securities Limited. This conference call 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 for future performance and involve risks and uncertainties that are difficult to predict. Actual results may differ from such expectations, projections, etc., that are 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 '*' 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 Aisha. Good day everyone. On behalf of Asian Markets, we welcome you all to the 4Q & FY2021 earnings conference call of Elgi Equipments Limited. We have with us today Mr. Jairam Varadaraj, Managing Director representing the company. I would request Mr. Jairam to take us through an overview of the quarterly and the yearly financials and then we shall begin the Q&A session. Over to you Sir! Thank you.

Jairam Varadaraj: Thank you Kamlesh for hosting this. Good afternoon or good evening ladies and gentlemen. Thank you for taking the time to be with us.

I will just give you the brief of the agenda. I will start with Q3 versus Q4 because last year's Q4 was a bit of a dislocation, so it really does not make any sense to compare with Q4 of last year. So, I will compare with Q3 of this year and Q4 then I will take you through the whole year and then we will talk about business as it is today.

Jumping right into Q4 versus Q3 our sales was about 6100 million, 610 Crores versus Q3 was 547 Crores. We had an increase in sales of close to 635 million because of that we should have made an additional profit at an EBITDA level of 250 Crores and contribution we lost because of the volatile and quite violent changes in raw material cost to the extent of about 60 Crores. So effectively our EBITDA should have been close to about 787 million, we were at 737 million, so I have to provide an explanation of close to 60 million. The biggest costs that came besides the contribution loss due to raw material, the biggest cost is our VRS that we introduced in Q4. This was primarily to reduce certain blue collar workmen who have had challenges working in the environment, a competitive environment; they had health issues, so it was necessary for us to go through it. So that is a one-time thing, so it is nothing to be worried about so overall I would say Q4 barring the challenge on raw material costs which was not just India, across the world we have done well.

Moving on to the whole year; let me start with the revenue. We finished the year with close to 19000 million and the previous year was about 18000. India was only about 1% growth. Bulk of our growth came from North America, Europe and Australia. So the internationalization of the business has really helped us during this period. So it is a positive thing and it is the right thing to do and this is a validation that we are moving along in the right direction.

If I go into the P&L for the whole year compared to the previous year, the biggest cost for us is besides the increase in revenue which is quite marginal about 1000 million, contribution was far better, our actual EBITDA was about 2000 million. Our EBITDA as per the sales and the earlier contribution level should have been only 1800 million so we ended up making actually about 300 million higher EBITDA for the whole year than what we would have done basis for last year's numbers.

The biggest improvement is in our other fixed costs as with most companies. A significant reduction in travel costs, significant reduction across all maintenance, rents, training, marketing, everything was reduced, and overall year was a very positive year. So I would like to give some context to this when we started the year there was a high levels of nervousness and uncertainty, nobody knew what COVID was, nobody knew how it will play out, and then the lockdowns came, so while after a month, month and a half, I think we gained some confidence and fortunately the markets rebounded for us, for Elgi specifically even during that time, the international markets continue to fire a lot better than India because they did not have as much of a lockdown as we did.

By the second quarter onwards all the markets came back up. The confidence within the organization, confidence in markets came back. So quarter-on-quarter we had a great performance on the topline but by the end of the second quarter the volatility in raw material prices really hit us and it was happening. Steel, copper and metal commodities were increasing week-on-week and that was something that was very difficult. We went through a very difficult period to manage. We continued to do that because steel prices even as we speak are continuing to rise on a weekly basis.

A little inexplicable situation, but that is the reality. It seems to be the current volatility and prices seems to be more an India-centric issue rather than a global thing but nevertheless steel prices have witnessed more than a 50% increase over the last one year. So this continues to be a challenge. It was a challenge in Q4, I mean, Q3 and Q4 but I believe that the team has managed things well.

We continue to do that well. So this is really the synopsis. Our team, our employees have done an outstanding job managing the company during this extremely difficult period, their commitment, their resolve, their perseverance, their patience, their resilience, is something it is a textbook, I mean, there is not enough words that I can use to express my admiration and gratitude towards them. So we have done a great job and reciprocally from a company's point of view the fact that we took a very firm decision that we will not fire anyone like many companies did or cut salaries like many companies did we are very happy that we did do it and we are very lucky that we were able to sustain that position even holding on to that and being able to deliver good results for our investors so overall a very positive situation.

Now if I look at the revenue contribution, I will start typically from Australia and move west. Australia had great results for us. It not only did better than the previous year, it did far better than our own internal expectations to our target, a very strong year, we have gained share in Australia. It is a very positive situation and we continue to hope that we will keep gaining traction. Southeast Asia was more like India heavily impacted by COVID all the critical countries that we operate in, but nevertheless we were able to maintain the business almost at the same level as the previous year.

India first quarter was a washout, second quarter we grew, I mean, the last nine months of the year we grew by almost 18% to 20%. So it was a very positive performance in India. Moving on Middle East was very challenging. It was probably the only region that performed below last year, but we have specific plans, we are hoping that things will turn around the Middle East and Africa.

Europe had an outstanding performance. As everyone knows we have been incubating Europe for the last year and a half. We held on to increasing our manpower headcount, giving the initial thought and towards the end of the year we started releasing that going back to our original plan, Europe had a significant growth for the year.

Moving on to North America, North America's performance was also outstanding at a significantly higher growth than the previous year. So overall the globalization of the business has really helped the company and we are in a very strong foundation in most of the markets that we are operating in.

Coming down to cash flow, I think here also the team has done an outstanding job controlling inventory and receivables, other than the beneficial tax refund that we received without taking that into account with a starting net debt of 260 Crores, we are down to about 110 Crores without accounting for that tax refund. If we take that tax refund also we are at around 90 Crores. So in overall funds management also we are in a very, very strong position. In terms of ratios of our sales with India and the rest of the world in Q4 India of course came back strongly so it was 56:44 but for the financial year it is 50:50. So international is performing a lot more than India.

From a capex point of view we had a budget of close to about 30 Crores that we said that we need to invest but we ended up actual cash outflow was about 18 Crores to 19 Crores. For the current year also we expect that the investment will be in the same neighborhood. It all depends on how the COVID situation plays out. Where are we now in terms of the COVID situation, how do we see our business? Now April has been a very strong month for us. We did better than last year, I mean which is not saying anything because last year was washout, but we have also done better than the year before. So which is, we had a pretty strong month in April. May is still, May is going to be challenging and June is probably going to be challenging, but I believe that it is going to be nowhere near the levels of the previous year. So I think we should be in a strong wicket, but the uncertainty of how COVID is going to impact us we know there is no longer an uncertainty about this infection that is very clear, but how it is going to impact us in terms of people not being available, suppliers, factories going down, freight and shipments getting delayed these are things that we are not able to predict. At the moment Tamil Nadu is under the severe lockdown. We are a net supplier to the essential commodity so our factories are still running. We are taking all the precautions to safeguard our employees, keep our factories clean and safe. We are also reaching out to our vendors providing them with all the assistance so that they are also able to keep their employees safe and therefore able to make supplies to us so that we are in turn able to supply to our customers internationally.

At this point in time while there is a lot of nervousness and uncertainty, we believe that we should in a matter of a couple of weeks things should settle down and we should be on a good wicket. So, if there is still quite a bit of positivity in the company in terms of the business outlook other than India all the markets are firing they are coming back from a very weak year so therefore there is a resurgence of economic activity and we are on top of it so therefore it should be good for the company. So this is really an overall update of how we have done and where we are today and how our future looks.

Again thank you for being with us, so I will be 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 Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Good afternoon Sir. Congratulations on a good set of numbers. Sir first question is regarding the kind of growth that we had seen in the fourth quarter. So, if you can touch upon in the domestic markets which are the sectors which have contributed to the growth? How the growth has been in from the infra side, from a private capex led demand house it especially are you seeing early demand from PLI related factories being set up and the regular, Steel, Cement, Oil & Gas, Road Construction and such kind of demand, how it is. If you can touch up on it and probably domestic market over the next couple of years what kind of growth trajectory that we can see, if you can touch up on this would be great Sir?

Jairam Varadaraj: The fourth quarter was on the back of again restricting my conversation to India was on the back of all sectors performing very strongly. It was not any one industrial sector that was really peaking, but to answer your question about infrastructure, the infrastructure-related investment had two manifestations; one was the enquiry levels for longer-term projects whether it was in cement or steel or refurbishment of plant, definitely the enquiry levels have gone up, but finalizations of anything significant did not happen, but compared to the prior quarters the enquiry and interest in the health has been far better. On the other side, on the Road Construction where are Portable Compressors that showed some strong results in the fourth quarter, but I would not say there was anything unique because that kind of interest started for us even from the second quarter onwards, but it remains strong. So India story is infrastructure and large capex was not the biggest contributor. It was across the board, all industries kicking in I would not say it has got anything to do with the public. It was all private investment that kind of resulted in probably the eventual public spending government spending had a trickle back into private spending, but we did not see any direct public orders, public sector orders on us.

Ravi Swaminathan: Certain equipments we have also supply to oxygen generating equipment, etc., would that have also contributed to the growth during the quarter?

Jairam Varadaraj: Not in Q4 in any significant way, Ravi because even while Q4 was happening the recognition of oxygen shortage that will happen that will come was not there. It came and hit us quite suddenly in end of March and April.

Ravi Swaminathan: So that demand can be good in Q1 Sir so basically of this year?

Jairam Varadaraj: Demand is good, Ravi but I feel a little skirmish talking about that as a business opportunity because it really I do not want to make it look like we were trying to make profit out of a requirement which is a national requirement and let us be talked about it the better.

Ravi Swaminathan: What kind of price increase we would have taken across compressors on a blended basis over the past 6 to 12 months any sense on that?

Jairam Varadaraj: I think the overall price increase has been in various regions. India was the highest we took almost 7%, 8% increase in increments, in multiple steps. Globally it is from maybe 4%, 5%.

Ravi Swaminathan: The final question with respect to the PLI Sir, so are we seeing initial enquiries from say factories being set up due to PLI or do you expect it to come over the next 12 to 24 months?

Jairam Varadaraj: We are not able to isolate any of these requirements that are specifically linked to PLI Ravi. We have not seen anything.

Ravi Swaminathan: Got it Sir. Thanks, I will come back in the queue.

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

Ranjit Shivram: Sir, congrats on good set of numbers. Sir I just missed your opening remarks you said about the 9-month trailing growth from the India market was it around 18% to 19% is that number right?

Jairam Varadaraj: Correct.

Ranjit Shivram: What is your outlook like stepping into the next year do you foresee such kind of growth traction going forward given this the oxygen shortage problem also, that is also giving us a good opportunity?

Jairam Varadaraj: When we entered into this financial year there was no oxygen related issues. Our budgeting that was completed in January, February timeframe was done without the knowledge of this kind of a situation that will evolve. So our growth trajectory that we had planned for 2021-2022 was in line with the trajectory that we witnessed in the nine months prior. But things quickly changed in a hurry, in March and April. So right now the different parts of the country are experiencing different kinds of restrictions. There has to be an economic impact of all these restrictions, but it is not like a lockdown as it happened in the previous year. So therefore while we have to taper our projections based on the nine months trajectory, I do not think we need to view the future as dimly or with as much gloom as we did in the beginning of last year. So I think in a matter of maybe a maximum month, month and a half things should get back to normal hopefully when the third and the fourth wave comes we will be far better prepared in terms of impact on human lives so I think these are the vaccination drive is going to parallelly keep increasing so I think except for this maybe a month, month and a half I think we should be okay, do I hold on to that same trajectory of growth probably not but will I eliminate it and make it negative probably not either. So the most likely future is going to be somewhere in between.

Ranjit Shivram: In terms of our external overseas performance you told Australia was a phenomenal growth, so what regarding the profitability of this business, if you can elaborate on like what key reasons for us has been the profitability, what is our expectation and also touch up on your strategic investments?

Jairam Varadaraj: Ranjit, I am not able to hear you there are some of your words are getting muffled?

Ranjit Shivram: Sir just wanted to get an update on the margin geography wise regarding your key geographies like Europe, Australia, North America how have the margins been an what is that in line with our expectations or how has that trajectory been and also regarding our investments with strategic investment which we have halted are we going forward and doing those strategic investments?

Jairam Varadaraj: As far as margins are concerned, I do not want to go into specific percentages in specific regions. I can only say barring India and Middle East all of the geographies have performed significantly better on margins compared to the previous year, and quarter-on-quarter they have been able to either maintain or grow those margins in the 12 months. So that is a very positive sign and I believe that barring this volatility and metal commodity prices, we should be able to sustain or maybe even at a best case grow these margins So that is the positive sign. As far as the strategic interventions that we had which was primarily Europe which we paused temporarily and which we selectively released towards the end of the year, we will continue to do open that up. The performance that we have got has been very good, so we want to we want to sustain and grow it to the next level so we will do that for this year.

Ranjit Shivram: I will join for further questions. Thanks.

Moderator: Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Congratulations on a great set of numbers. Sir my question was specifically with regards to Rotair and our EU business as a whole, you have embarked on multiple strategic initiatives in this business over the last year or two. I just want to understand specifically with regards to our spares and aftermarket business. How is our improvement happening in that particular region because that is something that would probably be a template to follow in the other geographies excluding India as well?

Jairam Varadaraj: Let me try and understand your question, Aditya. You said you want to understand the aftermarket business profile in Rotair specifically is that your question?

Aditya Bagul: And EU as a whole. The reason why I wanted to understand this is as I understand that there is a divergence in terms of aftermarket contribution between India and the Rest of the World. I just wanted to understand the trajectory that we are on in the EU business which can be "extrapolated" towards the job?

Jairam Varadaraj: The aftermarket business in our line of business is dependent on creating the installed base. Once you create an installed base then there is what you call as recurring revenue coming from the aftermarket for start parts and services. Now as far as the Rotair is concerned, their primary business is portable compressors where generally speaking for any portable compressors the recurring revenue is typically half of that of industry but that is the nature of the beast because most of the people who buy portable compressor they operate it in remote condition locations, the duty cycle, annual duty cycles are much lower therefore the amount of money customers spend on maintenance is lower. As far as the other beyond the Rotair in Europe is concerned we are going through that phase of building our installed base. Now, our focus is to very carefully monetize the base that we have already created in Italy over the last probably six, seven years and we are beginning to see the results of that. So aftermarket as a source of revenue is a strategic focus and we did not see the results of that and that is there even in North America and in every country that we operate in this is our strategic focus because that is where really our profits come from.

Aditya Bagul: Understood Jai. That was quite helpful. My second question is that during our analyst meet and earlier as well we have talked about our long-term vision. I just wanted to know if there are some milestones that you would like to talk about to achieving $400 million revenue and 15% margin. So while I understand that this is a five, six year sort of a roadmap if you can give us some milestones that you look to achieve in 2023 or 2024? That would be helpful.

Jairam Varadaraj: I do not know that you had a chance to look at our the MDNA in the last annual report where we really did as much as possible a detailed diagnosis of our past where we came from, what our aspirations are, why we will win, and therefore what our future is, and subsequently we said that we will set some clear definitions so what we have now defined is our target is to hit $400 million in revenue, 16% EBITDA and a minimum 30% return on capital employed and we want to achieve this by 2025-2026. This is really our interim goal that we have set for ourselves as part of our strategic business plan. Now this translates approximately to about a little less than a 15% growth which I think is realistically possible, CAGR of less than 15% so we think this is possible. We have made, we have converted these into specific initiatives in each country, each product, so we are well aligned to that. I think this time around our journey will be towards goals will be a lot more deliberate and a lot more confident.

Aditya Bagul: Understood. Jai that was quite helpful. My last question is and more to do with our oil free disrupted CD if you can give us an update on that? That would be helpful.

Jairam Varadaraj: Well, it is an oil free compressor with a significant value proposition to the customer, we have, like I said in my earlier calls we have got some very strong traction in India and that is continuing to grow. We have expanded the range of products in terms of kilowatts there. That is also set to give us some further inroads into markets. We have got our initial successful installations in Europe. We have got a few installations going on in the US, but in all the markets outside of India it is a learning process and we are solidly on track, but it is going to take some time to gain some traction there.

Aditya Bagul: Thank you so much and wish you all the best for the quarter.

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

Harshit Patel: Thank you very much for the opportunity. Sir the first question was on the Europe expansion plan. Sir you had quite elaborated that we would incur a loss of almost €20 million over a period of four years so that is almost 190 Crores. Now in the last analyst meet, you had alluded that you have already incurred a loss of almost 75 Crores in the first two years so that is FY2020 and 2021. Sir could you give us an update as to are we on track on this plan and what will be the quantum of losses in FY2022-2023, so how should we see the losses in the upcoming two years?

Jairam Varadaraj: Harshit, your audio was not very clear. I am going to rephrase your question. You want to know what is our current status in terms of our plan for Europe in terms of our investment in terms of losses and where are we against that and what we anticipate in the future. Is that your question?

Harshit Patel: Yes sir perfect.

Jairam Varadaraj: I do not have the actual losses that we are planning for 2021-2022 and 2022-2023. We have it but I do not have it in front of me. Based on what we had said that we will incur as a loss our current status is our losses are far lower than what we had planned and that the losses are lower for two reasons. One our topline has been healthier in terms of both contribution and volume and two the expected velocity of investing in overheads mainly people has been far lower than what we had originally planned. Now that velocity has started picking up towards the end of last year. It will continue till this year to that extent the losses would go up, but our expected sales is also going to go up so to that extent, I do not see the annual losses becoming significantly higher than what we have seen in the past but this is something but like I said I do not have the number in front.

Harshit Patel: Sir the second related question would be how should we look at the employee cost for next year that is FY2022. So what would be the quantum of increase over the last year and out of the total increase how much should come from Europe?

Jairam Varadaraj: I can take this offline with you Harshit. I do not have the numbers in hand, you can reach out to our CFO and I am sure to the extent that it is competitively prudent to share he will share it with you.

Harshit Patel: That would be very helpful. Sir just a last question, Sir just expanding on the question of the earlier participant so sir what could have been the share of aftermarket in FY2021 both at the standalone as well as at the consolidated level and by when do you think this we can reach that 30%, 35% kind of a benchmark number so would that be possible to know over the next four to five years or would it be too early?

Jairam Varadaraj: Again your audio is poor. I am going to rephrase the question you want to know what was the aftermarket percentage in FY2021 is that your question?

Harshit Patel: Right Sir both at the standalone and at the consolidated level, yes.

Jairam Varadaraj: I can give you some rough numbers at a standalone level, at a standalone level our aftermarket is close to about 26%, 27% of our revenue and we are well on the way towards getting to that optimal number. As far as I think consolidated again I am guessing a number. It is probably 10% to 12%. So we have a lot of headroom for growth there. Now in every one of our markets the aftermarket is a very strategic initiative like I just explained in answering my earlier question and that is one of the key drivers by which we are planning to move the EBITDA at a consolidated level to 16% over the next four, five years. So that is a very critical lever for us.

Harshit Patel: Sure Sir, that was very helpful that was all from my side. Thanks a lot.

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

Bhavin Vithlani: Thank you for the opportunity. Congratulations for good set of numbers. All good. Hope are all good at your end, Jai. Jai my question is on the international compressors and we are actually seeing that the EBIT continues to be negative and the way we derive is from the segmental disclosure consolidated minus the standalone there the EBIT continues to be negative around 5 Crores over the last few quarters. While you did allude towards an improvement in the performance, but if you could help us when are we expected to see positive contribution from the international subs and what is the kind of target that one can expect over the next 12 months. Should I repeat?

Jairam Varadaraj: No can you please repeat I did not get your question?

Bhavin Vithlani: Jai, I was looking at the performance of the international compressor division and the EBIT continues to be negative and the way I am arriving it is consolidated EBIT of the compressor minus the standalone EBIT. So while you did allude towards improvement in performance and we could see that in the revenues but EBIT continues to be negative if you could help us how should one expect this over the next one to two years?

Jairam Varadaraj: If you look at EBIT for let us say 2019-2020 and compare it to 2020-2021 you will see a significant improvement in that ratio between standalone and consolidated and that is primarily because of the losses that we are incurring in Europe and that is a deliberate investment. Our strategic investment into Europe is showing up as a EBIT loss if you consider it as a capital investment and if there is a way I mean one could wish if it could get capitalized in the balance sheet, you will not see this. So it is really the impact of the expenses that we are incurring in Europe that is causing that and that is more strategic in nature.

Bhavin Vithlani: Sir if you could help us what was the negative impact of the European in fiscal year 2021 and how has been the performance of the US businesses?

Jairam Varadaraj: Bhavin we can take this offline because there are some sensitive information that I think if you can reach out to Jayakanthan he will be able to give you those numbers.

Bhavin Vithlani: Sure I will do. The second question is on the Motor well and what we do understand is you recently did launch one of the product and do you believe that the gap has now been bridged and you could climb back on the market share ladder again?

Jairam Varadaraj: Absolutely, I do not think it is a question of bridging the gap. I think we are ahead of the gap now, a product that we have is far superior to what the competition has and this has been validated through extensive customer experience. We have given away close to about seven or eight machines to customers and let them run for more than 2000 hours.

We have watched both their fuel consumption, their running costs for borewells as well as the reliability of the machines and there is absolutely no comparison with what is out there in the market and it is not only our own feedback but customer's feedback has been very, very positive. Now at the moment, the market is completely dead. There is no investment going on. The impact of fuel prices, at multiple levels that this market, the demand for borewells has come down and as a consequence the demand for borewell compressors is very subdued, but there is an expectation in the next quarter or two things will start picking up and we are well placed in making that happen.

Bhavin Vithlani: My last question is on a standalone basis from the compressor side if you could help us what were the top three to four end user segments for us and specifically what could be the contribution of the auto and auto related sectors?

Jairam Varadaraj: Bhavin, in FY2021 like in most other years that we have had no one industrial sector contributed to more than 3% to 4% of our topline. Now that is the beauty of this business because there is no industry sectoral dependence of this business, so if you look at FY2021 standalone at least India we had growth just about in every industrial segment. We started off the year with chemicals, food and pharmaceuticals, firing then auto came from nowhere least expected the demand for automotives went up both two-wheelers and four-wheelers it started going up and then there was talk of investing in capacity so there was a demand for compressors but taking all that into account every, every sector grew. I cannot say there is the top three in any significant way.

Bhavin Vithlani: That is really heartening to know. Thanks so much and these were my questions.

Moderator: Thank you. The next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Thank you so much. Congratulations on excellent numbers Sir. Sir just looking at the India standalone performance which has been really stupendous with EBITDA margin of more than 18% in Q4 so I will not only frame my question on Q4 margins but going forward like you did mention we have taken certain price hikes and commodity price, volatility continue so my question is more on margins front that with India now getting a significant benefit of operating leverage with a lot of backward integration are these margins on an annual basis what we are seeing in the range of 14% to 15% are now sustainable going forward in the context of the increasing commodity prices and our ability to pass on number one? Number two, we had a decline in probably certain costs last year and how much of that is sustainable and do you expect some of those costs to come back. So just want to get a sense that how would we see our margins on India and then maybe on overall consolidated basis also?

Jairam Varadaraj: So when you say margin of 14% what margin you are talking about, Manish?

Manish Goyal: I am looking at operating EBITDA margin of 14.4% on a standalone basically 159 Crores of EBITDA on revenue of 1100 Crores?

Jairam Varadaraj: If you really evaluate that EBITDA, how we were able to achieve that EBITDA bulk of it came from our operating leverage. For FY2021 standalone bulk of it came from the fact that our other certain fixed costs were much lower, and we were able to maintain the contribution margin at variable cost level. So that is really the story for the full financial year, but if you look at Q4 the performance in Q4, the bulk of the 18% EBITDA performance has come from the operating leverage, other fixed costs in Q4 started going up because travel started, customers wanted us to come and meet them so some of that has already had started moving towards normal levels, normal levels of travel not excessive but we have taken certain very strategic decisions that go beyond this COVID and the return to normalcy things like closing down our branch offices, going into a virtual working mode, renegotiating rentals wherever those things are going to continue, so it is difficult for me to exactly quantify which are the elements but it is not a small number but it is not a significant number. So expectation is if things get back to normal some of these fixed costs will go back to normal levels. We will be able to maintain our contribution margin at variable cost, by and large with a lag of two to three months because we are not in a business where every day we can increase prices so there is always one quarter lag in which a price increase becomes effective that is visible on the P&L, but we are confident that on a steady state we will be able to recover it and it is a decision that we have made that we are not going to swallow any of these increases in raw material cost because it is a global phenomenon. So there is really no need for us to it. So we have decided that we are not going to. So taking that factor into account and the fact that we are looking at a growth of on our strategic business plan trajectory we are looking at a CAGR of slightly lower than 15% so India will have to grow at that level assuming it does it is reasonably possible to sustain.

Manish Goyal: One more update if you can provide on our motor facility what is the progress on that and when do you expect to start that?

Jairam Varadaraj: Motor plant production has started. They are supplying quite a bit of motors to the Indian market, quite a few motors for validation have gone to Europe and the US so for the year 2021-2022 quite a bit, I think close to 45% to 50% of our, in from a volume basis not value basis, volume basis the Indian requirement will come from our motor plant, our own motor plant. We are still waiting for that one piece of equipment that is made by a German company. It is stuck. It is getting delayed repeatedly, if that comes in that 50% can be increased further.

Manish Goyal: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Uma Maheshwari from Kotak Mahindra. Please go ahead.

Uma Maheshwari: Good evening Sir. Congratulations for good result in Q4. Sir the question is more about prospects that Europe as a region holds for us. You had mentioned before on incubating Rotair and Europe taking for one and a half and now is the time to considering the opportunities. Mid of last year there was this incorporation of a lot of subsidiaries Elgi Belgium becoming our wholly owned subsidiary and then there are plans to go there because of the kind of opportunity at present. Can we just throw a bit of light as we also feel that will be a big growth engine for the quarter?

Jairam Varadaraj: If you step back and look at the global market roughly speaking one-third is the Americas, one-third is Europe, one-third is Asia. This is a rough split of the global opportunity of compressors. So Europe represents approximately one-third of the global opportunity and we have been playing in Europe since 2014 and specifically in Italy which is the most competitive market out of all the countries in Europe and we have demonstrated to ourselves that we have gained a reasonable share of the Italian market which is proof of our products, our services and our people and our engagement with distributors. So we took that as the basis of confidence or platform of confidence and said now let us go organically grow the Europe market by creating our own sales and service network, but for supporting our distributors, creating more distributors which is what we did and these incorporation of various companies in different countries is to enable us to be able to hire people in those countries. Now you cannot hire people because of all the local laws and the social contracts that are necessary to be signed unless you have an entity registered in these countries and that is what we have done. So we have pretty much registered in most of the countries we still have a few more to go which we will do as the year progresses and even as we speak we are building the team and bringing people on-board. So this is strategically aligned to what we intend to do that.

Uma Maheshwari: That helps.

Moderator: Thank you. The next question is from the line of Ritwik from One-Up Financial Consultants. Please go ahead.

Ritwik: Thank you for the opportunity. Sir couple of questions, firstly did I hear it right that you mentioned that 400 million revenue target by FY2026?

Jairam Varadaraj: Yes 2025-2026.

Ritwik: You mentioned in the initial remarks that there was a small VRS amount is it possible to quantify the same?

Jairam Varadaraj: It is about 4 Crores, 40 million.

Ritwik: Sir my last question is on Europe conceptually is this understanding right that we would be manufacturing compressors here and selling into the subsidiaries that we are setting up in each of the countries and they would have a trading kind of revenue and the bulk of the revenue and the margin would come in the standalone is that a fair sense?

Jairam Varadaraj: No you are partially right and partly I need to explain it. Yes, for the current period the intent is to manufacture the complete compressor in India and ship it to the various markets in different parts of the world but having said that for certain project type of business some amount of local customization will happen. It already happens in places like Australia where we have the capability to do it. So, but by and large it is going to be the model of making in India and shipping that, but as the volumes increase we need to get availability production close to the customer this is something that we will evaluate as the market and our presence in the market evolves. So we are open to that. We are not close to it, but at the moment it is going to be production in India. As far as margin split is concerned bulk of the margins are with the subsidiaries. It is not with a standalone entity. Roughly, I would say probably one-third is in the standalone and two-thirds is with the subsidiary.

Ritwik: Basically once we scale up our European operations initially at least in the coming two to three years our revenue in India will increase, but the margins in the overseas subsidiaries will increase further because of the higher margins that these are there?

Jairam Varadaraj: Right.

Ritwik: Sir just I think that on the $400 million target for FY2026 if I take the FY2021 as base, it translates to about 10% CAGR so are we being a bit conservative or are we are going a bit realistic because 10% over five years?

Jairam Varadaraj: One of the lessons that we have learnt in the past is do not be optimistic and underperform rather be pessimistic and overperform. So beyond that I do not want to say anything because we would like to see what best we can do.

Ritwik: Just one last question on Europe, when do you think that we would achieve a sizable scale in Europe, would it be two years or three years or greater than that?

Jairam Varadaraj: We made a five-year plan that at the end of the fifth year we will break even, recover all our losses. So we are well on that trajectory. We have already crossed two years we have got another three years to go.

Ritwik: So FY2024. That is from my side. Stay safe Sir. Thank you.

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

Ranjit Shivram: Just wanted to know this in the patents the US business what is the overall performance because that was one segment where we had a lot of turmoil last year so have those issues being sorted out and, is that back to profitability?

Jairam Varadaraj: Ranjit you are talking about patents?

Ranjit Shivram: Yes. I am talking about patents.

Jairam Varadaraj: Patterns this in the financial year FY2021 has been profitable compared to the significantly higher than the year before but we are not ready to break open the champagne on patents. There is still a big opportunity ahead of us and still a lot of work for us to do and this is part of our strategic initiative that we have worked out for the next three, four years and you will start seeing the benefit of that as we roll those programs.

Ranjit Shivram: Lastly, we had seen in our announcement that Anwar has been promoted to ED so is it that you are passing over the mantle or what should we read from that?

Jairam Varadaraj: No, fair question, no. We are not looking at him being my successor. This is primarily to enable the standalone entity, the Indian entity to be able to compensate him for the work that he is doing and because he is already a board member, the only way to do it was through making him an Executive Director. Right now his compensation is coming from the US entity as an employee but now that he is in the board that had to get changed. Now Anwar is responsible for all our strategic initiatives that we have made as part of our strategic business plan that I explained to take us to this 400 million, 16% and 30% ROCE goal. So that is the fundamental thing. He will be mentoring and supporting the entire leadership team towards making this happen.

Ranjit Shivram: Thanks so much.

Moderator: Thank you. The next question is from the line of Eshit Sheth from Anvil Wealth. Please go ahead.

Eshit Sheth: I wanted to clarify on an earlier participant question, for the aftermarket revenue, for consolidated revenue it is 10% to 12% you meant international business is 10% to 12% right?

Jairam Varadaraj: Yes, correct.

Eshit Sheth: Sir second question is that for this quarter a lot of traveling costs were curtailed and also starting next year we will also have some cost savings because of all the consultancy programs being over so you think those two costs will negate each other out?

Jairam Varadaraj: Well, the consultancy costs were already not there this year, so if you compare what the travel costs would be in the future compared to the travel costs of this year the consultancy costs are not figured in anyway. So to that extent they are not the when travel goes back to normal the reduction will not compensate because there is nothing this year for consulting.

Eshit Sheth: Sir the third question was on the new range of our oil free compressors from what I remember last was that in terms of our costs we were at close to 103% of our targeted cost that we wanted to bring it down to have we reached 100% or lower now?

Jairam Varadaraj: No if you remember I said our goal is to be at 100%, we are at around 150%. So the progression will be, this year we have not really focused on reducing the cost, the focus more was on getting the products out and installing them, but we have ideas to reduce by another 20%. So we will bring it down to 130%. So and then it is going to become a continuous program of incremental reduction.

Eshit Sheth: But at 150% you said you are seeing very good traction in India from assuming at 150% it will have much better traction if the product is right?

Jairam Varadaraj: Either traction or more profits for us.

Eshit Sheth: That is it from my side. Thank you.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to Mr. Jairam Varadaraj for closing comment.

Jairam Varadaraj: Thank you all again for participating. I apologize for some challenges that we faced with my audio cutting off. Thank you for your patience. To summarize, we had a great year. Quite a bit of it was deliberate in terms of our performance and some of it was also the recovery of the market sooner than anticipated. The overall confidence within the organization is high, the overall validation of our presence in global markets is high, we stay committed to it, we stay focused on our business, there is no distraction, we are continuing to look at bringing our capital employed down. We have started working on multiple ways. So, overall we are heading in the right direction and our strategic business plan target of hitting 400 million, 16% EBITDA and 30% ROCE, we have very specific, very deliberate plans, and we are quite confident that we will achieve them. That is really the summary of what I would like to share. Thank you.

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