

Elecon Engineering Annual Report FY23 Imp points:

MD comments: Despite the challenging external environment, Fiscal 2023 has been a very worthy year in terms of performance. FY23 has generated the highest Revenue & Profit in last 10 years. Gear Division maintained its growth momentum as we continued to capitalize on the strong external demand trends across end-user despite global macro headwinds. MHE Division witnessed a remarkable turnaround and back to normality after facing a lot of challenges. The benefits of shifting to a product-based business and exiting from troubled projects are evident in our strong financials. The government's increasing focus on the infrastructure sector is expected to lead to a pick-up in the capex cycle in the steel, cement, sugar and also in defence sectors, presenting opportunities for the company. Going forward, we are focusing on engaging with OEMs and strengthening distributor network in overseas market. Inflation and supply chain issues in the European market poses challenge and sustainability issues to the local players and puts us in an advantageous position to capitalize on this opportunity. As a part of our strategy to further strengthen our global presence, we are committed to investing in global brand building exercise and substantial marketing initiatives in overseas market. Being a debtfree company, provides us with more flexibility to explore new geographies as part of our growth strategy in overseas market. We remain optimistic about the business and continue to focus on delivering operational excellence. Recently launched 2nd Generation of EON Series, a game-changing solution that will provide benefit both, our customer, as well as us, with improved operational efficiency, reduced operational costs, and inventory optimization.

Head Gear Division Comments: In recognition of our unwavering focus and dedication to achieving excellence in quality and delivery, Elecon Engineering was awarded as one of the Top 10 Gears & Gearbox manufacturers by Industry Outlook. Elecon holds the top-most position in the customized and complex gearbox manufacturing segment for the defence sector, which is a matter of great pride for us and stands testimony to our technological capabilities and manufacturing excellence. This year, we have focused on tapping the vast opportunities available in overseas business, meeting the demands of stringent quality and superior technology of the International Market with our products. We are confident of improved performance in the coming quarters on the back of sound order book both in the domestic and overseas business.

Head MHE division comments: The MHE business has witnessed a remarkable turnaround and become profitable due to strategic initiatives undertaken by the company. We continue to witness strong order inquiries which has translated into strong order book for the MHE division. Replacement and upgradation requirements along with new orders from Power and other end-user industries led to sustained order inflow. Currently, Elecon has one of the largest range of products in the market with high visibility and a subsequent growing client base. We intend to add a few more products to be able to cater to other industries where we are not currently present. As such, we see tremendous potential for growth in the MHE division while maintaining a healthy margin. We are continuously pushing ourselves to provide more value to the client in terms of technological innovation and aftersales service. Overall, Elecon's focus on innovation, technology, and excellence positions us well for continued success and growth.

CFO Comments: The consolidated revenue composition stands at 86% in Gear and 14% in MHE. Working capital management for inventory, receivables and payables was in constant focus during the year resulting in improvement of working capital days. Key ratios have improved under all parameters, along with our focus on cost control and ensuring better utilization of available capacity.

There was a positive development in arbitration awards in favour of the company from its customers, some of which were settled amicably and some of the cases are under negotiation. All these initiatives have resulted in Net Cash surplus position. I am happy to share that Elecon stock is included in MSCI India Domestic Small Cap Index

Growth Drivers: Growing industry demand for Gearboxes were well felt in Elecon throughout the year 2022-23. Elecon also stood on the occasion and met the customer expectations working at more than normal efficiency level. Finally the year ended with Elecon set some new milestone for themselves. Sugar Mill Planetary Drives, Large Sponge Iron Drive packages, Rolling Mill Pinion Stand Gearboxes, Roller Press and Ball Mill Drives for Cement, Power & Mineral plants and finally Marine Gears for Naval Warships are some of the drivers for the growth. Elecon have always in look out of the development opportunities in Mechanical Power Transmission Drives. Elecon's leadership is further established when renowned Steel manufacturing company from United Kingdom or Cement company from South America come to Elecon for their critical Gearbox need apart from thousand other customers across the globe.

Diversification of the business by venturing in to new areas gave us exposure to new material handling requirements such as FGD packages, Health and life study of equipment / system and providing R&M solution to various customers.

- Considering that approval for commercial mining and allotment of various mines has been accorded by Government of India and that Coal India Subsidiaries have plans to execute several new projects, we are working closely with the industry to upgrade/develop various equipment/systems like higher size crushers, semi-mobile crushers, to support many Mine Development Organizations.
- Operation & Maintenance of operating plants is another area of interest wherein efforts are being put to

Achievements & capabilities: • Elecon managed to complete the Coal Handling Plant at NTPC Mouda by overcoming various problems with determination and focus.

- We have successfully completed 100% indigenous Urea bagging plant at RFCL, Ramagundam.

We have executed the Order for Wagon tippler with associated equipment for third time consecutively from Paradip Port Authority by replacing the old tippler. The said project is commissioned and is under operation.

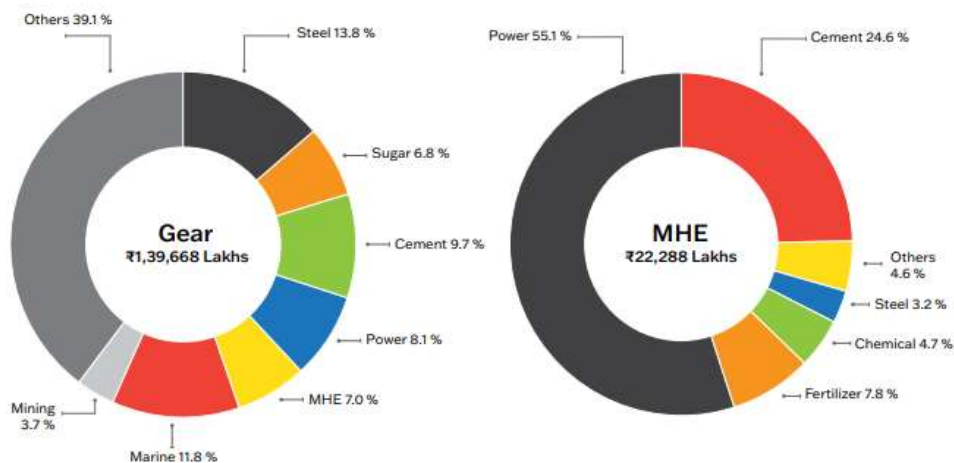
- We have successfully commissioned 2 sets of Wagon Tippler for M/s. BHEL at Wanakbori TPS, GSECL, Gujarat.
- We are about to close the Order from Singareni Collieries for Relocatable conveyors for their mines located in the Ramagundam area. Noload trails of the conveyors are successfully achieved and about to commission with load in Q1 of FY23-24.
- We have successfully completed Order from SAIL Durgapur for Barrel Reclaimer for their Plant. The said machine has been commissioned in June 2022 & since then it is under commercial operation.
- We have also received the order from SAIL Burnpur for similar Barrel Reclaimer in FY 22-23. The supply & installation is completed and the machine is likely to be commissioned in Q1 of FY23-24.
- We have successfully completed the orders from Shree cement for Jharkhand & Maharashtra plants and the Wagon Tipplers with associate marshalling equipments are commissioned.

- We received the order for supply & erection of Stacker Reclaimer from M.P. Power which is under execution and completion is targeted in May 2024 as per contract schedule.
- Reputed customers have appreciated our manufacturing strength, and have given us several equipment orders, while giving preference over other established world renowned suppliers.

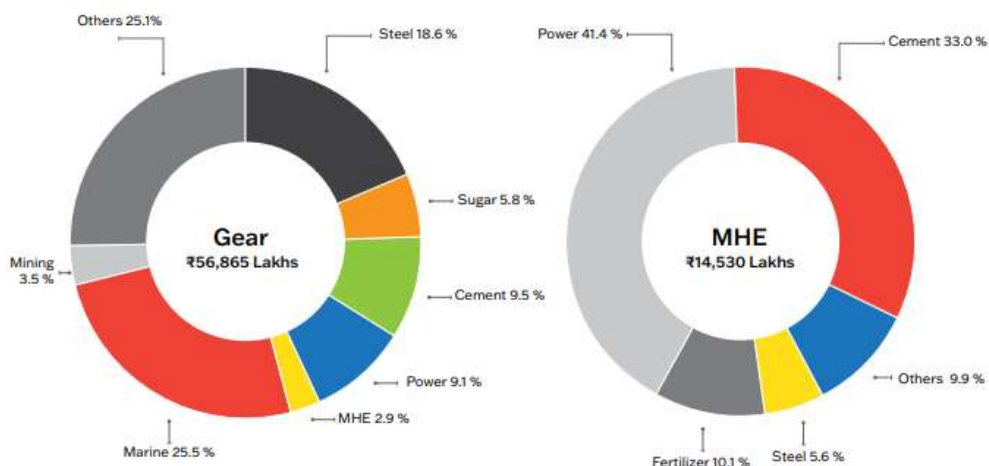
Cement industry has thrived even under difficult circumstances, largely supported by massive infrastructure growth. Several cement plants have added capacities expecting the boom to continue. Our prestigious customer list includes Wonder Cement, Chettinad Cement, PMC cement, Dalmiya cement, Birla Corporation etc. and the projects awarded to Elecon are being executed as per their required timeline and quality standards.

- We are also executing a few machine orders from Private players.
- Major significant improvement has been achieved by MHE division in this FY in terms of reduction in Company's liability of Bank Guarantee exposure. Nearly 50% in value has been reduced.

Order Book in FY23



Order in hand as at 31st March, 2023



Industry review: The Indian Engineering sector witnessed positive growth momentum on the back of increased government spending in core segments such as power, railways and infrastructure development as well as private sector investments in cement, steel, etc. However, the industry faced challenges in the form of higher commodity and fuel cost on the back of Russia-Ukraine conflict which disrupted supply chain. Also, Covid-induced lockdowns in China's manufacturing and trade hubs impacted exports to the region. Nevertheless, the Engineering sector remained resilient despite these shocks due to supportive government policies such as Production Linked Incentive (PLI), increased focus on indigenisation, corporate tax rate cut, etc. along with increased capex outlay. Capacity creation in sectors such as infrastructure, oil & gas, power, mining, auto & auto components, steel, refinery, consumer durables etc, is driving growth of the Engineering industry. The Engineering sector in India enjoys competitive advantage in terms of manufacturing cost, technology, and innovation. There has been significant shift in share of industrial exports from developed nations to low-cost base countries like India over the last few years and the trend is expected to continue going forward. Demand in the engineering sector is expected to remain healthy primarily on account of the Government's increased thrust on infrastructure development. The industry continues to invest in latest technologies and implement process automation as it focuses on improvement in efficiency and overall competitiveness and emerge as the preferred destination for high-end complex engineering products. Capacity creation in the manufacturing sector along with technological improvement in manufacturing processes, diversification by global players away from China and supportive regulatory policies such as PLI bodes well for the growth of the industry. However, rising interest rates and concerns related to inflation and economic uncertainty could act as headwinds to growth prospects for the sector. Global industrial gearbox market is expected to be driven by growing government investments for the development of power generation sector, growing construction activities and increasing automation across varied industries and applications. Moreover, the market is benefitting from increasing investment in renewable power generation, especially wind power, for addressing increasing energy needs and reducing reliance of fossil fuel-based power. The other factors driving the growth and development of global industrial gearbox market is the rapid utilization of industry 4.0 combined with various technologies such as internet of things and artificial intelligence. Rising usage of automated industrial gearboxes in various end use industries such as food processing, agriculture, automotive, and machinery is also supplementing the boost in global industrial gearbox market.

Company review: Elecon is actively engaging with leading OEMs and working towards becoming the preferred supplier in the European market. The company's strategy is to leverage its healthy balance sheet position and also explore inorganic growth opportunities to gain access to new geographies. The Company has been expanding its global footprint, investing in brand building, and undertaking various marketing initiatives to increase overseas revenue and has set an ambitious target to take its overseas and export revenue to 50% of the consolidated revenue by FY30. Elecon's growth strategy is backed by a strong focus on innovation, R&D and technology, along with a commitment to sustainability.

Elecon is committed to maintaining its leadership position by focusing on new product development and enhancing value in existing products. The company is exploring opportunities in the defence space and is currently the only customized and complex Gear Manufacturer for Defence for the Indian Navy in India. This highlights Elecon's extraordinary technological capabilities and R&D excellence. Despite the challenges posed by soaring costs and rising interest rates, Elecon remains

focused on debottlenecking and ensuring better utilization of available capacity, alongwith working capital optimization and cost control to minimize the impact. The company's efforts to optimize operational efficiency are reflected in its healthy financial performance, strong cash flows and robust balance sheet. Elecon's focus on innovation, technology, and sustainability, alongwith its commitment to delivering value to customers, positions it well for continued success and growth in the years to come.

Segment review: During fiscal 2023, the power business contributed close to 11% in the Standalone business. India is the third-largest producer and second-largest consumer of electricity in the world. Soaring demand from the industrial and domestic sectors have been the major driving factor for the growth of the Indian power sector. According to the Central Electricity Authority's (CEA) released Draft National Electricity Plan (NEP), additional 466GW of net power generation capacity is to be added over the next 10 years taking the total capacity to 866GW by FY32. Further, the use of automation and smart metering is expected to play a pivotal role in improving the cash flow of distribution utilities and bringing a positive transformation in the sector. The impending capex cycle for generation capacity addition, distribution and transmission is likely to give a major thrust to order inflows to companies like Elecon Engineering.

India's cement production is estimated to have clocked high single digit growth in FY23 led by government's thrust on infrastructure, smart cities, and housing. The government continues to prioritize spending in infrastructure sector and has raised the capital expenditure by 33% to Rs. 10 lakh crores in the recent budget to fast-track implementation of high-multiplier government programmes such as Bharatmala which is likely to boost cement consumption and help the high-capex sector. Massive emphasis has been put on infrastructure development through the National Infrastructure Pipeline (NIP) under which projects worth `108 trillion are currently at different stages of implementation with an aim to stimulate sustained economic growth. The Union Budget increased allocation to road infrastructure by 36% to around `2.7 lakh crores to meet the target of constructing 25,000 km National Highways. Outlay for PM Awaas Yojana has been increased by 66% to `79,000 crore which would be another key driver of cement demand in India. As such, the increasing focus on upgrading infrastructure combined with thrust on affordable housing by the government has resulted in positive outlook for the cement sector.

India is the second largest producer of steel in the world. The domestic demand for steel has been remarkably resilient despite the persistent global macroeconomic instability caused by elevated inflation, soaring energy costs in Europe, fear of recession in the EU and US and stress in property market in China. Government's massive infrastructure development plan in core sectors like railways, roadways, energy, urban infrastructure, multimodal logistics parks, affordable housing and water and sanitation projects is likely to support growth in demand for the sector. The government announced highest ever `2.4 lakh crore for railways in the budget, increased allocation towards the housing programme for urban poor, setting up and revival of 50 additional airports, helipads, water aerodromes, and advanced landing grounds and proposed 100 critical transport infrastructure projects for last and first mile connectivity for ports, coal, steel, fertiliser, and food grain sectors with an investment of ` 75,000 crore. Rapid urbanization, government's strong infrastructure push, and an expected pick-up in private capex is likely to sustain the growth momentum of the industry.

The Indian subcontinent's strategic location on the world's busiest maritime route gives it a significant advantage in the shipping industry. The Indian shipping industry has played a crucial role in the development of trade and commerce and has been aided by various government initiatives over the years. These initiatives, such as the Sagarmala Programme and Maritime India Vision 2030,

have focused on port modernization, new port development, and infrastructure improvements to boost performance, productivity, and growth in the maritime sector, making it globally competitive. The government has also approved financial assistance policies for Indian shipyards, providing financial support for both domestic and export orders to promote growth in the sector. These measures are expected to contribute to the growth and development of the Indian shipping industry, making it a key player in the global economy

The Indian sugar industry has significantly transformed in recent years, with the government implementing initiatives such as minimum support prices and the ethanol blending program to promote growth. These initiatives have helped India become the world's largest consumer and second-largest producer of sugar after Brazil. Despite challenges such as fluctuating prices and oversupply, the industry has remained resilient, driven by factors such as robust exports, diversion of sugar to ethanol production, and increasing consumption levels. The industry has also become self-reliant, meeting the sweetener and energy demands of the nation. Overall, the Indian sugar industry's growth and resilience are positioning it as a key player in the global sugar market, aligned with the 2030 Agenda for Sustainable Development Goals.

Ratios:

Particulars	Standalone		Consolidated	
	31.03.2023	31.03.2022	31.03.2023	31.03.2022
Debtors Turnover Ratio*	3.53	2.11	4.02	2.63
Inventory Turnover Ratio*	6.72	5.01	5.66	4.74
Interest Coverage Ratio*	43.34	5.88	39.26	6.43
Current Ratio	2.31	1.47	2.52	1.64
Debt Equity Ratio*	0.02	0.13	0.05	0.14
Operating Profit Margin	23.45	20.63	22.15	20.33
Net Profit Margin (%)*	15.72	10.70	15.53	11.59
Return on Net Worth(%)*	17.46	10.55	18.83	13.58