"Kirloskar Pneumatic Company Limited

Q3 FY '24 Earning Conference Call"

January 24, 2024

MANAGEMENT: **MR. K. SRINIVASAN – MANAGING DIRECTOR – KIRLOSKAR PNEUMATIC COMPANY LIMITED**
MR. RAMESH BIRAJDAR – CHIEF FINANCIAL OFFICER – KIRLOSKAR PNEUMATIC COMPANY LIMITED
MR. JITENDRA SHAH – COMPANY SECRETARY – KIRLOSKAR PNEUMATIC COMPANY LIMITED

MODERATOR: **MR. AMIT SHAH – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day and welcome to Kirloskar Pneumatic Company Limited Q3 FY '24 Earning Conference Call hosted by Antique Stock Broking. As a reminder, all participants 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 any assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amit Shah. Thank you and over to you, sir.

Amit Shah: Thank you, Riya. Good afternoon, everyone. On behalf of Antique Stock Broking Limited, I welcome you all to post earnings call for Kirloskar Pneumatic Company Limited. Representing the management, we have with us Mr. K. Srinivasan, Managing Director of the Company and Mr. Ramesh Birajdar, CFO of the Company. I'd like to hand over the call to Mr. K. Srinivasan for his opening remarks, post which we can open the floor for Q&A. Over to you, sir.

K Srinivasan: Thank you, Mr. Shah and good evening to all of you. At the outset, let me wish you all a very Happy New Year. May the year 2024 be not only a leap year, but a leap forward in our journey for growth and success. The year 2023 has been a year of good order intake, significant ramp-up in filing patent and design registrations, accelerated new product development, and a strong focus on in-house capability building.

However, execution challenges coming primarily from large package order and from CNG station order have had a dampening effect on the top line. We expect this to change from this quarter. Sales YTD is about 5% lower than the previous year. Exports at INR52 crores compared to INR152 crores at the same time last year was one of the big factors in this. In Q3, we ran the factories without the block closure that we normally have around Diwali and built up packages for dispatches in Q3 and Q4.

The cost of inputs and availability has improved, allowing us for quicker execution. Sales YTD was at INR833 crores as compared to INR880 crores at the previous year, a decline of 5%. This was largely on account of lower exports and lower shipment of CNG packages. The profit before tax was INR97 crores compared to INR101 crores of the previous year.

You all are aware that we had an extraordinarily one-time cost of INR4 crores for the labour settlement in the second quarter, so it is about the same as last year. All the businesses, air, refrigeration and gas, had strong order inflow. However, sales was flat. Export sales in the first nine months had no large package sales and hence was lower. We expect exports to be only about INR75 crores for the full year, a near INR100 crores lower than last year's number.

As of January 1, 2024, the order on hand were INR1,546 crores, over INR250 crores higher than the corresponding period last year. This bodes well for our planned growth. Our committed capex spend was about INR50 crores and we have done about INR40 crores against this so far. We expect to complete the planned capex spend for the year. This will allow us to build both capacity and capability to meet the next year's growth budget.

Now let's discuss the results by product lines. Air compressor divisions. The air compressor sales were flat, with slowing down of off-take from the air separation plants, pharma and automotive. Sales for niche applications continued to grow. Traction for the Tezcatlipoca centrifugal compressor packages was strong and we expect to book significant orders for execution in FY-25.

We are seeing large interest in the rebuild restoration of compressor business and this is an area where customer will probably use to defer significant capex spend due to the technological transition that's in process.

Refrigeration compressor systems: The strong growth in consumption has accelerated investment in food processing, storage and distribution. The demand for compressors in this phase is very strong. We are seeing strong sales growth in this phase. The shipment of large refrigeration packages for oil and gas sector remains contingent on the EPC contractors having the site ready. This continues to be a challenge in terms of keeping to plans.

The order intake in this phase is strong with several new projects under finalization. The reimagined business model to sell cooler packages with Khione screw compressor for refrigeration rather than a bare screw compressor has started to bring in results with a couple of packages being built and shipped with the Khione screw compressors. We are now confident of quickly scaling up and becoming a preferred choice in the dairy, pharma and food processing industries.

Process gas compression systems: The packages that we shipped last year to the Middle East are running well and serve as a strong reference for us to seek to finalize several new orders, which have been under discussion for quite some time. However, the current happenings, most of these finalizations are getting delayed in the Middle East.

We do expect no quick results in this region with what's happening there, but hopefully things should start finalizing by the second quarter next year. Our pledging effort to address the Southeast Asia market for oil and gas packages and spares has had its first success in Thailand. We will scale this up going forward.

We are more positive about outcomes in this area. Shipment of gas packages in India continues as planned and we remain the largest player in this space. Dispatch of CNG packages continues to be a challenge. The redeeming feature is the accelerating demand for the Calana booster compressor packages.

We end up selling more Calana's than CNG packages this year and we believe the offtake of CNG packages too will pick up going forward. We continue to participate in developing the biogas business with the standardized compressor packages for various biogas plants. We have finalized several orders and expect this to progress really scale up going forward.

The O&M service business continues to get streamlined with better payment cycles and a more predictable growth in the business demand.

Outlook for Q4: With the increased viability of CNG gas both for the customer and for the CGD companies, we expect to see a strong revival in the CNG installation pace. We have pending order that need clearances for dispatch to several large customer and we have to see this happening from Q4.

We also have orders in this space for execution for FY25. We are confident that we will be able to catch up in our growth momentum since we have about INR500 crores to do in Q4 and hope to see that we are on a journey to do a INR2,000 crores Company in the next two years. Before I request the CFO, Mr. Ramesh Birajdar to bring in the financials, I am going to request the Company Secretary Mr. Jitendra Shah to read out the safe harbor clauses please.

Jitendra Shah: Thank you sir. The presentation uploaded on the website of the company and discussion on the financial results during the earnings call may contain statements relating to future business developments and economic performance that could constitute forward looking statements. While these forward looking statements represent the company's judgments and future expectations, a number of factors could cause actual developments and results to differ materially from expectations.

The company undertakes no obligation to publicly revise any forward looking statements to reflect future events or circumstances. Further, investors are requested to exercise their own judgments in assessing various risks associated with the Company and also the effectiveness of the measures which are taken by the company in tackling them as indicated during the discussions. Thank you.

K. Srinivasan: Ramesh, can you take forward with the financial performance please?

Ramesh Birajdar: Thank you. Good evening. I trust you had the chance to review the results recently posted on the BSE and NSE website subsequent to the conclusion of the board meeting. Furthermore, we have uploaded a presentation spotlighting the trends observed in the Q3 results on our Company's website.

However, for the benefit of those who may not have had the opportunity to study the results, please allow me to provide a summary of the Q3 FY '24 outcomes. Sales for the Q3 FY '24 were INR308.5 crores against INR312.2 crores of Q3 FY '23. Sales for the Q3 also showed a growth over Q2 FY '24 by 9%. Other income for the 9 months improved 59% to INR13.5 crores compared to INR8.4 crores in the previous year.

Total income for the YTD ended December '23 was at INR846.1 crores compared to INR888.2 crores in the previous year. We have enhanced the ratio of raw material consumption to revenue from operations, achieving an improvement from 56.8% to 52.4%. This positive shift can be attributed to preferable product mix, prudent selection of orders for improved pricing and our concentrated efforts to minimize the cost of manufacturing.

This marks a commendable 4.4% year on our improvement in gross margin. As the third quarter year to date, the employee remuneration expenses stands at INR126 crores, constituting 14.9% of the total income. In comparison, during the same period in the previous year, the ERE was at INR108 crores, representing 12.1% of the total income. This increase is primarily attributed to salary correction and initiation of operations at the forging plant in Nashik. It's noteworthy that at this stage, Nashik plant is utilized for captive consumption.

Additionally, one-time impact of INR4 crores from dispute settlement has contributed to shift in ERE. Company has maintained the status as a debt-free Company and I would like to state that Company still has a net cash position of INR221 crores as on 1st January 2024. Depreciation is in line with previous year and addition to assets.

Other expenses are mix of fixed and variable costs and are at INR159.3 crores against INR154.5 crores in previous year. This is on account of pull ahead of CSR expenses, updating of software and other routine expenses. The year-to-date performance for the first nine months of the current year shows an improvement in EBITDA margin, reaching 14.7% of total income to INR124 crores compared to 14.2% of total income to INR126 crores in the previous year.

Additionally, EBITDA for the third quarter also demonstrated growth, increasing from 16.6% in Q3, INR52 crores of the previous fiscal year, to 18% of total income in Q3, INR56 crores of the current financial year. In the ongoing fiscal year, year-to-date profit before tax has reached INR97.2 crores, constituting 11.5% of total income against 11.4% to INR101.2 crores in FY '23.

Net profit after tax for the initial nine months of the current fiscal year is INR73 crores in comparison to previous year's INR76.3 crores, which is 8.6% of sales in both years. The Company issued INR120,800 equity shares during the period ending on December 31, 2023, under the Employee Stock Option Scheme.

As a result, paid-up share capital increased to INR12.95 crores compared to INR12.92 crores at the beginning of the year. YTD earning per share in the current year has shown a stable earning, reaching INR11.30 per share. This is marginally down compared to the previous year's earning INR11.83 per share.

In line with our dividend policy, the Board of Directors has approved an interim dividend of 125% on face value of INR2 per share, that is INR2.50 per share. With about 92% of revenue coming from the compression segment, it remains the only reportable segment.

The segment earned profit of about 19% in the current quarter, higher than the previous year when it was 18%. The compression segment is consistently sustaining profitability within the range of 18% to 20%. The company has an order book of over INR1,546 crores as of 1st January, 2024 against INR1,300 crores plus in the previous year at the end of Q3 FY '23.

Segment assets experienced INR63 crores surge compared to the previous year primarily due to advances made to supplier and increase in inventory and other factors. In order to arrive at capital employed for the segment, current liabilities were reduced accordingly. Now this forum is open for questions from investors.

Moderator: Thank you very much. The first question is from the line of Nikhil from Simple. Please go ahead sir.

Nikhil: Yes. Hi, good afternoon. And thanks for the opportunity. One is, can you share what is the mix between equipment and packages for the quarters? First question is that.

K. Srinivasan: Yes. Like we said all along, our package sales is roughly 60% and equipment is 40%. This quarter it is about 50-50. We had more and more equipment sales. Consequently, the product mix has been favorable.

Nikhil: Okay. So that explains the gross margin expansion?

K. Srinivasan: Partly yes, partly also there has been a better operating improvement coming out of both pricing power as well as lowering of the input costs. That is the material management.

Nikhil: Secondly, sir you mentioned that the -- so if we go through our last three quarters – this quarter also in the opening statement you mentioned that the CNG packages still remain weak while the Calana booster has taken off. Can you help us understand over the nine months what is the revenue from the CNG? And how is the scale-up on Calana?

K. Srinivasan: I will give you an overall number. The sale in the segment which goes into the natural gas distribution, that is the Calana and the CNG combined, is about 30 crores lower than what it was in the corresponding period last year. The number of compressors sold, CNG, has come down in the last two years from 250 plus to 150 plus and this year most likely ending up below 80.

So that's the kind of decline you are seeing in the CNG packages. The Calana's have been – we will probably will end the year somewhere between 80-100 packages. And that was almost nothing last year. So that's the entire thing as a group. In absolute numbers, we would probably have more dispatches of Calana and CNG combined this year than last year.

But you must understand that the Calana is almost one-third or even less, one-fourth the price of a CNG package.

Nikhil: Correct. Now, coming to this, if we look at our numbers over the last three-four years, and assume -- and this point you had mentioned earlier also that the peak CNG packages which we used to sell were around 240-250, which was around March 21. And this year that has come down to 80. And this has been because of the slowdown from the CNG or CGD companies.

How do you see the scale-up? Do you think that because the industry landscape and the addressable market remains the same for the CNG packages as such and the demand has not been met. So do you think that the number of what we had in '21-'22 can be achieved? On the packages and then Calana can be upside on that?

Or how do you see the pipeline moving over the next three years?

K. Srinivasan: Yes. I'll go back to what we have as the data available from Petroleum and Natural Gas Regulatory Board Authority, who actually are the ones who are putting out the allocation of gas connections to the CGDs. 12th round of bidding is over. 98% of the geographic area of the country is covered. By that, we should have another 12,000 installations coming in the next five years.

Now, how it plays out, we have to wait and watch. What is clearly happening is the last two years with the big disruption in the availability and price of natural gas, there has been definitely a slowing down of putting up new gas stations. People have not put up gas stations because it was not remunerative. However, they had the GA allocation and they had made commitments of coverage.

So, to speed up the process of coverage, all of them are now rushing in and putting in a Calana. Without a gas pipeline, you can put a Calana and move the gas in cascades and still deliver. This is what is happening. We believe there is a consolidation that is likely to happen. Some of the smaller CGDs will sell off to the bigger ones. The natural gas distribution will go through a process that is similar to what we saw in the telecom industry some years back.

And only when you see some consolidation will they go out and put out pipelines, put in the big CNG packages, etcetera. Till the time, a lot of Calana's will sell to keep licenses alive and transactions would have to happen. This is broadly our judgment of what is happening. Look at the larger picture. The commitment that we will move from 6% to 15% of the energy basket to natural gas is there up front by the government.

The consumption of natural gas has gone up 6% last year. Most of it has been taken up by the fertilizer industry. The gas distribution companies, the CGDs, have had a lesser allocation. But they have now a lion's share of the natural gas which is generated within the country. So there is a change that is happening. We are seeing it happening from October.

Hopefully, it should accelerate. Whatever is in the pipeline as compressors bought and kept in inventory, not commissioned, are all moving out. We should start seeing new allocations coming in shortly. That's broadly a summary of whatever is happening in this space.

Nikhil: Okay. Sir based on the revenue split which we gave between air compressor, refrigeration and process, if we look at over the last four years, while there is a drop on the CNG side, which I think roughly was INR250 crores in 2021, probably this year we will close at 150 to 170, the other oil and gas part has scaled up significantly. How do you see the momentum scaling up on that segment of impacts of the CNG?

K. Srinivasan: Okay. I didn't understand the first part, but let me again say it. The air compressor business is roughly about 25% of our turnover. The refrigeration business is roughly 30% to 35%. The gas business is roughly about 40% of our business. This is broadly what we have been saying and we continue to be around that.

What really has happened is what we have lost in the CNG space has been covered up in the gas projects. Last year, these projects were predominantly based on exports to Middle East. This year, it is predominantly based on projects which are in India. Most of them are happening in India.

And that, like I have been saying the last couple of calls, is a very, very busy time. A lot of projects are happening and we are a leading player in this. We are a dominant player in this. We continue to win orders and we are executing these.

Nikhil: So, our market share in this has remained the same? We've not lost anything?

K. Srinivasan: I wouldn't hazard a guess because when I see the numbers, you are talking about CNG packages or in the project orders?

Nikhil: Project orders.

K. Srinivasan: Project orders, I think plus minus we are okay. We have lost a few orders in the last six months and we are a little choosy. I did mention in the earlier one call as well. The orders that are now being, EPC contracts that are now being won, are being won by relatively smaller companies. Companies of a turnover of about INR400-INR500 crores are winning these orders. If they have a large order bank, we are a little more careful about taking orders from them. So, to that extent, we may have lost one or two orders, but that's by choice.

Nikhil: Sure. I will come back in the queue. I have a few more questions.

K. Srinivasan: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Sanjaya Satapathy from Ampersand Capital. Please go ahead.

Sanjaya Satapathy: Sir, thanks a lot for the opportunity and also seeing good sequential recovery in your performance. Are you maintaining your guidance of some 12%-15% growth for the full year FY24 or you are looking at a different number?

K. Srinivasan: I did mention we are looking at double digit from our 20%. We scaled it down and said last time we are only going to be double digit. I still think from the current roughly 850, if we do about INR500 crores, which is in our hand, we should be very near the double digit number. We'll see how soon, how close we can get to it.

Sanjaya Satapathy: Understood. And, sir, it is good that your order inflows are increasing. So, probably, you will be a lot more optimistic about the next financial year. And that is when you will again go back to your 20% kind of guidance. Is that a fair assumption, sir?

K. Srinivasan: I think it's more than a fair assumption because clearly the growth momentum will pick up. What we have been saying is we will catch up on the lost growth opportunities going forward. Whatever we see in terms of our new products coming up as well as the order booking going up, I think we are better placed to ensure that even with a slowing economy globally, we will be able to get back to our growth momentum, 20% plus.

Sanjaya Satapathy: Understood. But, still, you mentioned in your opening remark that you are seeing that even if there is some order, you are seeing some amount of decision-making delays or some implementation delays. So, you are baking in all that when you are looking at your estimates, right, sir?

K. Srinivasan: That is right. So, what I still keep saying is we are becoming more choosy on these package orders that we are winning from EPC contractors because smaller contractors' ability to execute on time is a challenge. So, we are trying to be more careful on the kind of order that we are finalizing. Having said it, I still have this challenge that even large government companies, if they do not give me site clearance, my billing does not happen. And that affects my inventory. That also affects my sales.

Sanjaya Satapathy: And, sir, in your margin commentary, you mentioned that it is entirely because of your pricing as well as some amount of input costs happening. However, in your press release, you had mentioned something about this forging for plant kind of becoming stabilizing and that also is helping. So, if you can just help us understand that considering all these things, where do you really see the margin settling in? This also -- still does not include the business which you think that you will discontinue or sell it off at some point of time.

K. Srinivasan: See if you look at the margin growth in Q3 in the compression segment that's going up, it is largely coming out of a better product mix. We had very few big packages, more and more equipment. In the opening comment itself, I said our equipment sales have crossed 50% this time. So, it's a product mix issue which gives me a larger margin. That's the first thing.

Second is also coming out of pricing. There has been some amount of advantage in the pricing. So, it's by and large the same as what you said in the press release. The press release also talks about the same thing, getting a better product mix. We have said the same even in our opening commentary as well as some pricing advantages there.

Sanjaya Satapathy: But you also talked about some forging plant benefit. I thought that it may be…

K. Srinivasan: Okay, okay. That is nothing, forging plants will get benefit from next year. This year, just in December, we have started commissioning. It's an internal invoicing that has started. The sales actually have to happen as a product outside the Company. So, that will also improve my margin going forward. So, I mentioned clearly it's going forward.

Sanjaya Satapathy: Understood. I thought that because you are sourcing it internally, there will be some benefit and then subsequently from outside.

K. Srinivasan: Absolutely, absolutely.

Sanjaya Satapathy: Understood. And so, where do you think the margin can really stabilize considering all these developments?

K. Srinivasan: Yes. So, the long-term guidance we always keep saying is the same. The company's EBIT margin would directionally get first to 18. Because we are seeing compression margin separate and we are seeing the company separate. We still have to dispose the RoadRailer. It is still not completed. So, I would have to take that. So, the company's margin will first go towards an annualized 18%. We are not there yet. Directionally, it will move towards 20 beyond that.

But the real challenge or a strategic call we take is would we trade off a certain bit of margin for growth or we would increase the margin beyond this and trade off growth. Currently, our mood is to keep growth above 20% and operate in a margin range of between 18% to 20%.

Sanjaya Satapathy: Very last thing if I can ask that as you said that your gas business is still 40% of your revenue. But within that, how much is this CNG packages? Can you just give that number?

K. Srinivasan: I already gave you and I think somebody else also mentioned it is likely to be around INR180 crores this year, the CNG and Calana put together.

Sanjaya Satapathy: INR118 crores?

K. Srinivasan: Yes, 180.

Sanjaya Satapathy: Okay, sorry. And that doesn't have much of down side because it has already fallen so much from those INR300-odd crores.

K. Srinivasan: It can only go up from here. I think we have hit the rock bottom.

Sanjaya Satapathy: Thanks a lot, sir. And, all the best.

K. Srinivasan: Thank you.

Moderator: Thank you. The next question is from the line of Niraj Mansingka from White Pine Investment Management Private Limited. Please go ahead.

Niraj Mansingka: Yes, hi, sir. A few questions on the CNG compressor. Can you give us your thoughts on why? I know you have spoken about it before also. Do you see really those delays coming or do you see those stations also not coming in next five years, which are planned?

K. Srinivasan: You are talking of natural gas distribution?

Niraj Mansingka: Yes, sir. CNG distribution.

K. Srinivasan: Like we say, what we call as the CNG stations are the mother stations that can only come up where the gas pipelines are laid. Now, gas pipelines are not coming up at the pace at which it should and only then the CNG stations can come up. But if you still need to distribute natural gas even without the gas pipelines coming up, then you'll have to put up the booster, the Calana, where you just bring the gas through cascades. You put it on a truck, you see those big cascades that bring in and they put it on top of these compressors and deliver it into the respective vehicles.

The initial phase for the CGD companies to get the coverage in compliance with the commitment that they give to PNGRB would be to at least get the Calana running so that they start delivering gas. Later, they will have to invest more and get the pipeline in place because people have been behind schedule in terms of laying pipelines. There are very many reasons. So that is very difficult to discuss now. But they will eventually have to lay pipelines except in areas like the hilly places, northeast, etcetera, where they think the distribution will for a long time remain only through cascades.

Niraj Mansingka: Got it. Sir, do you see a Calana booster compressor scale up further from the number of packages we are doing this year and next year?

K. Srinivasan: Yes, it will continue to scale up faster than CNG because as the CGD companies race to comply with their coverage, because they all have given commitments of how many testing areas they will cover, they will do the Calana first because it is a lower capital investment.

Niraj Mansingka: Sir, any thoughts on how many boosters you can sell?

K. Srinivasan: No. We will have to be careful with that because we are also not super keen on being a booster company. So we will only take , pick and choose orders that we think are worth it, because it makes very, very little margin compared to the CNGs. We are not going to be with a Calana long term, because look at it. If you need to supply gas, first bring it by a truck on a cascade, put it on top of this, fill vehicles, how much money can the station make?

So this is a very interim step. We do not want to rush and become a huge Calana producer. We will keep it at a level so that we are available in this sector, but we are hoping quickly that the larger companies will move to what is most sustainable, which is the pipeline and the CNG station. That's the regular way forward.

Niraj Mansingka: And, sir, what will be the market share of yours in the CNG compressor packages?

K. Srinivasan: We have been all along saying that in the CNG compression packages, it is a bit of a duopoly. We are not perfectly 50-50. We are around two dominant players. There are others as well, but we are the two dominant players.

Niraj Mansingka: Okay. And the other would be what, sir? Who will be the other player? Atlas?

K. Srinivasan: I think you all people do analysis better. I never say the name of anybody.

Niraj Mansingka: Okay. And sir, then is it right to say that a potential market of your business, if fully used, would be 6,000 stations because assuming 50% market share for you?

K. Srinivasan: I think this number has been put out by PNRGB already, Petroleum and Natural Gas Regulatory Board. Now, they have allocated more than in each round of bidding, they have said up to the 12th round of bidding is announced. We think there are more than 12,000 compressors yet to come up, compression stations to come up.

What order will become CNG? What order will become the boosters it is something that will evolve as it goes forward? And also let me also say that, look, there are roughly about 5,000 plus compressor stations running as of today. And some of the older ones also will have to be replaced in the next five to seven years.

Niraj Mansingka: That is interesting. And, sir, the question is on the upstream gas system project. Can you give some color how large the market is? Because last year, you shipped a package to Middle East and that experience is good. So, can you give some color on how you see the market, how large it is and why the delays are happening and when you expect some orders to flow in?

K. Srinivasan: See, this is a difficult question to answer because the Indian market is roughly 12 to 15 packages a year on a good year. The packages can be anywhere between -- the cheapest could be between INR12 crores to INR15 crores. The biggest could be about INR100 crores depending on what all is covered in these packages. And there could be many reasons. It could be a gas gathering station. It could be a PSA station to take a natural gas out of the oil. It could be many, many options out of it. Now, depending on the package, it could be different.

Now, what is coming up in the Middle East? Middle East, all states and all locations have a certain amount of gas. There is an increasing awareness that methane is a bigger disaster compared to CO_2. So, all the trapped methane that is either fled or released in the air when oil drilling, etcetera, happens would all have to be taken through a gas gathering station. So, all that is changing. Technologically, new opportunities are coming up.

And all this new requirements are coming up. This industry will see a lot more activity in many of the traditional areas, but it is something that is evolving. We have supplied two gas gathering stations in the Middle East and they are working well. So, we still expect that itself could be a big opportunity going forward.

Niraj Mansingka: Any color on how large the market will be? Because you said in the past that you have supplied those equipment with almost no margin, so that you can at least get on the checklist. So, can you just share your thoughts?

K. Srinivasan: No, we supplied only one package as an entry package. Otherwise, we work with normal margins in this business. We don't do work otherwise. We did mention first quarter of last year that one package that we did supply to get a proof of concept of getting the product in. But beyond that, it has all been at natural margins. I would be very careful about market size. Let me tell you that it is billions of dollars big. For you to get an idea, it can be anywhere between 3% to 5% of the capital spent in the oil sector.

Niraj Mansingka: Okay, got it. Thank you very much, sir. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: Hi, sir. Good afternoon. Thank you for the opportunity. Sir, you did mention that there could be some consolidation and then gas pipeline should start at a much faster pace. So, my question is around does that essentially change the landscape in terms of your market size? If some of the Calanas have already been put, does that substitute your market or is it an additional opportunity?

K. Srinivasan: See, generally, if a consolidation happens, first of all, the pipeline laying activity could start and there will be actually to start with new CNG station orders. The Calana will all be relocated into areas where the pipelines are currently not there. So, nobody is going to discard them. That's going to be the first phase. Also some of the older boosters that have been around.

See, boosters have been around in some of the parts where the old gas pipelines were not there. They will all also need to get replaced.

So, our market size from here can only get bigger. The opportunity should get bigger. The size should get bigger as the execution starts. And all this is driven not so much about the consolidation, also by the fact that government clearly has mandated that the natural gas as a part of the energy basket should move from 6% to 15%. This is big. So, we are talking of not only an organic growth, but a substitution growth coming up. So, I think we will see big growth in this.

Kunal Sheth: Okay. So, basically, is it right to assume that this Calana will be more complementary to the number of mother compressors, gas packages that will be required?

K. Srinivasan: I think that is a good way to look at it.

Kunal Sheth: Okay. And, sir, how different will be the realization for this Calana versus a typical, say, a gas compressor package for a mother station?

K. Srinivasan: Price is about one-fourth, and the margins will be half.

Kunal Sheth: Okay, sir. Sure. Thank you so much. That were my questions. Thank you.

K. Srinivasan: Thank you.

Moderator: Thank you. The next question is from the line of Thomas Biju from Alfaccurate Advisors. Please go ahead.

Thomas Biju: Thank you. The first question is how is the environment looking for export orders, and when do we see that improving substantially?

K. Srinivasan: You are talking of market forces, market conditions?

Thomas Biju: Yes.

K. Srinivasan: Yes, market conditions for us is very positive. See, we are largely a domestic company. Our exposure to exports is not very big, and it is also very specific and targeted. The Indian market is very buoyant. All our segments that we operate on are buoyant. We are having specific opportunities, like we mentioned, with more of the ammonia-based urea fertilizer plants coming up. That's a huge opportunity out there. There's a big opportunity coming out in terms of the food processing and other guys having more storage than others, so requiring a lot of the Q&A-required compressor packages. So I think the market for us is growing, and it's growing well. We don't see any slowdown.

Thomas Biju: You mentioned that you expect the execution to improve from Q4. What gives us that confidence?

K. Srinivasan: We have the orders. We are finished quite a few levels of inspections and testing, so dispatches have started for Q4. So hopefully when we complete Q4, that is what we will see as the numbers. We've been saying that we have about INR500 crores to execute. So if that goes out, I think we will see that we will get to our number that we are talking of.

Thomas Biju: Got it. And you mentioned that you're expecting double-digit growth next year, that is FY'25, and moving to a 20% growth trajectory the year after that?

K. Srinivasan: No, the FY'25. FY'25 itself, we should get back to a 20%-plus growth.

Thomas Biju: Understood. And the EBIT margin, you're saying 18% for…

K. Srinivasan: Directionally 18% and gradually going beyond 18%. But directionally 18% first.

Thomas Biju: By FY'25 itself?

K. Srinivasan: FY'25, directionally towards 18%. I repeat, we may not reach 18% as a Company.

Thomas Biju: Got it. Okay. Thank you very much.

Moderator: Thank you. The next question is from the line of Anand Katadare as an individual investor. Please go ahead.

Anand Katadare: Thank you for the opportunity. You mentioned about the RoadRailer segment. Can you throw some light on that?

K. Srinivasan: Either you know about our RoadRailer business or you don't know about it?

Anand Katadare: I do, but you were…

K. Srinivasan: This business is a business that we said we have ceased operations. We don't run them anymore. We still own them. We are looking to dispose off this business or divest this business in any which form. We are working on it and we will do it during the course of this year, hopefully.

Anand Katadare: Okay, fair enough. Can you share the O&M share as a percentage of total sales?

Ramesh Birajdar: Sorry. Will you repeat again please?

Anand Katadare: Can you share the O&M segment as a percentage of total sales?

K. Srinivasan: Okay, I understand. So what we always keep saying is spares and service as a whole is about 15% of our total. This includes -- because most of the O&M may have sometimes including spares. So, the billing would be spares separate, service separate, but the O&M contracts would include spares and service. So, we give as an overall spares and service business of KPCL is about 15% of our total and it is plus-minus within that.

Anand Katadare: Okay. Thank you so much.

K. Srinivasan: Thank you.

Moderator: Thank you. The next question is from the line of Alisha Mahawala from Envision Capital. Please go ahead.

Alisha Mahawala: Hi, sir. Good evening. Thank you for the opportunity. So, firstly, just wanted to know in the INR1,500 crores order book that we have right now, what is the share of exports?

K. Srinivasan: Madam, I am not able to hear this question fully. Can somebody repeat it for me?

Alisha Mahawala: Hello. Am I audible?

K. Srinivasan: You are loud. Can you reduce it a little bit and speak, please?

Alisha Mahawala: Okay. Is it better now?

K. Srinivasan: Yes, it is okay now. Thank you.

Alisha Mahawala: Sorry for that. Just wanted to know in the order book of about INR1,500 crores that we have right now, what is the share of exports?

K. Srinivasan: So, like I said, the export is likely this year to be only about INR75 crores.

Alisha Mahawala: No, I did get that number. I am saying in the order book that we have because a large part of this will be executed over two quarters or three quarters of FY'25. Just trying to get a sense in INR1,500 crores, if we remove the INR500 crores you are doing in Q4, what would the share of exports be?

K. Srinivasan: Okay. The exports orders on hand out of the current order book of 1,546 would be a less than INR100 crores.

Alisha Mahawala: Okay. And you did mention that for the packages that we have delivered, they are running quite successfully. What has then caused a slowdown in incremental order wins? Have we lost these orders to probably your peers or competitors?

K. Srinivasan: I am still not able to hear most of what you are saying. So I am struggling with the questions.

Ramesh Birajdar: No, we lost the orders not because we are not competitive, but in some cases we are very choosy to get the orders based on our expected margins. And if we are not getting that margin, we are not accepting that order.

Alisha Mahawala: Okay. And this is a challenge in the export market also.

Ramesh Birajdar: Export also. Last year, we did a good amount of export. Based on that, we tried to set up or give the example that we are in the export market. We are getting the business for the export, but we are very choosy now. And once we show that we are capable for the export, let the export market come with our own expectations for achieving the margins.

Alisha Mahawala: Understood. And we are hoping that the scenario will improve next year where we will be able to make the margins that we aspire for. And the growth in the export market will also come back?

Ramesh Birajdar: Yes, we are trying that. And again, the same answer. We are very choosy now, especially for the export also. Because if we are not getting the desired margin, we are not accepting that order.

Alisha Mahawala: Okay. And where do you stand on the aspiration of…

Moderator: Hello.

Alisha Mahawala: Hello?

Moderator: Could you not use the speaker? Could you use the headset because of that?

Alisha Mahawala: I am on the headset. I am not on the speaker. Is it audible?

Moderator: Yes, it is audible. But the line is breaking a lot.

Alisha Mahawala: Is it better now?

Ramesh Birajdar: Yes, please go ahead.

Alisha Mahawala: Yes. Where do we stand on the aspiration of INR2,000 crores? Because earlier the target was to achieve it by '25. So are we pushing it by one year now? And do we feel that '26 is achievable? Or the 20% growth that we do may take maybe two and a half, three years?

K. Srinivasan: So this is an important question that I should answer for everybody. We are targeting next year to get about 20% which should take us nearer to the INR2,000 crores that we have an aspirational target. So if we don't do it next year itself, because that will be significantly high growth, we will probably be off by about six months. That is broadly what I would like to say.

Alisha Mahawala: Sure. Got it. That is helpful. And just one last question. We did mention during the call that we are witnessing a higher share of sale of the Calana booster compressors. And also we are currently witnessing lower exports, which is also part of our order book. How do we see the impact of both of these on the margins? Because we do know that Calana's lower margin exports are supposed to be the better margin business. So are we expecting any margin pressure, say, in the near term, till some of this normalizes and demand for our gas compressor comes back, or the mother compressor comes back versus Calana?

K. Srinivasan: Like I said, we are not taking all the Calanas that we probably can. We are being choosy about it there as well, because we do not want to become a Calana player. So we would have a margin target that we will work with. And directionally, we will still go towards the 18% that we have committed. And we will work with that as a target when we look at orders that we would work on.

Alisha Mahawala: Okay. And this 18% we are hoping to achieve by the time we hit the INR2,000 crores revenue aspiration?

K. Srinivasan: Definitely.

Alisha Mahawala: Okay, great. Thank you and all the best.

K. Srinivasan: Thank you.

Moderator: Thank you. The next question is from the line of Abhijeet Singh from Yes Securities. Please go ahead.

Abhijeet Singh: Thank you for the opportunity, sir. And very good evening.

K. Srinivasan: Good evening.

Abhijeet Singh: Sir, my only question is on the biogas business. So how do you see that ecosystem scaling up right now? In the last one to two quarters, we have seen strong ordering happening there, a few plants being set up. So what is our strategy to penetrate into that particular line of business? And what is the competition?

K. Srinivasan: I think it's a good question, so I should explain a little bit around biogas. First is, this is an area of great interest for the Company. And it's an area of focus for the country. The announced introduction of biogas to be blended with natural gas has been announced at 1% for FY'25 and going up to 5% before 2030. So that means every year, they will increase 1% of the natural gas should come from biogas. The SATAT Scheme has been announced.

The price of oil, the oil marketing companies should and the CGD should buy the biogas is set by the government. So there is a huge support to ensure there is more biogas plants. Unlike earlier when only smaller players were all trying to set up, today large corporates have also made announcements that each of them are talking of setting up between 100 to 150 biogas plants going forward. So this is an area of big interest for us, and we are working on it extensively.

What is happening now is significant amount of quotes are going out every month, but the finalizations have been relatively small. One or two packages of what is coming. There are today two proven ways by which biogas can be made depending on the bio source. The bio source could be a spent wash from a distillery, press mud from a sugar plant. It could be poultry waste.

It could be urban waste, etcetera. So these are the bio sources, and we have standard packages for various ways by which the biogas can be cleaned. We are the only one who can have a pure indigenous compressor packages, be it for filling into cascades or be it for piping it into pipelines if they are available nearby.

So we are a serious player in this. We are working hard with all the major biogas plant setting up people, and we hope to see this as an important play. But having said all this, I must caution. This is still relatively small even compared to the overall natural gas business. So if a natural gas business is something which we are doing at a next level, this is going to come up much, much slower than that.

Interesting, important, and something that the company is seriously working with as a major player.

Abhijeet Singh: Right. So right now our sales to this particular segment is pretty low…

K. Srinivasan: Yes. We'd probably do five packages to ten packages a year.

Abhijeet Singh: And in the next one year with the kind of investments that we are envisaging coming in from large corporates, etcetera, this number should pick up ideally?

K. Srinivasan: We hope so. See, unless people do something different than what they're currently doing, if somebody finds a way by which this biogas at some stage is converted into green hydrogen or something. See, some of these projects that are working on large numbers would have a delta in terms of what they are trying to do.

Then the order booking can be much bigger and execution will also be pretty fast. See, today a couple of plants that we set up two years back, when I see them running, they are running at 20%, 30% efficiencies. So this is something which the technology itself has to mature.

Abhijeet Singh: Right. So I was trying to understand from the technology perspective only.

K. Srinivasan: For you to get a scale, you should understand that this is 15 years behind what ethanol was.

Abhijeet Singh: All right. I mean, by the kind of interest some of the companies are showing in this space, I would have assumed that 15 years would be a long time.

K. Srinivasan: So at the moment we are seeing more heat than light.

Abhijeet Singh: All right. Understood. Thanks a lot, sir. That is the only question I had.

K. Srinivasan: Okay.

Moderator: Thank you. The next question we have is from Prolin Nandu an Individual Investor. Please go ahead.

Prolin Nandu: Yes. Hi, sir. Thank you for taking my question. I just wanted to, I mean, again on this INR2,000 crores kind of a run rate, right? What has been a major disappointment for the last three quarters has been the CNG orders have not been coming in and also some bit on the export market. So let's say hypothetically these things don't fire up as we expect them to be.

Are there any white spaces which we can fill in terms of either product innovation or the service offering that will ensure that this company continues to grow at 20% level? Because I remember in one of the conferences you said that rather than looking at Pneumatic as a compressor Company, we are in a way an engineering kind of a company.

So, I mean, if we leave aside these two macro issues which are in a way not in our hand, can we still continue to grow at 20% by innovating, by launching new products?

K. Srinivasan: I think this is again an important question for all investors. See, really what we have done in the last year, and I was just saying the same with our board as well in our discussions, achievement is what the world outside can see. Satisfaction is what we get out of what we have been doing internally, and they have to get to a point of synchronicity.

Today, a lot of work what we have done in terms of creating IP, I did mention in my opening comment in terms of IP, in terms of new products, in terms of building capabilities, all that gives us a competitive advantage and allows us to build and bring to the market products which are very competitive, which will give us a right to win in many spaces.

We can only announce those products and launches as and when they actually get out there. So, you will see a lot of exciting things coming. We are quite confident when we talk about a 20% growth sustainable over periods of time, double-digit growth at least. There are a lot of things that are happening within that will give us that confidence.

We continue to remain very bullish about what we are building up, and we think that we have it in us to deliver better solutions, better products going forward.

Prolin Nandu: Sure. Thank you, sir, for that clarity. The second question was on the margin, right? Now there were a couple of drags which were outside of our compressor business, which were the reason why the margin on the company level was not the same as what the compressor segment used to earn, and one of them was RoadRailer, right?

So, two questions to that margin aspiration of 18%. One is that why is there a delay to sell off the RoadRailer business? Is there a drag of that business still there in our numbers? And thirdly, as you mentioned, as soon as our forging plant starts, and correct me if I'm wrong, this will be used for internal consumption to make motors, and then maybe if we have some capacity, we'll sell it outside as well.

So then, as soon as that plant hits the -- starts earning revenue, is it fair to say that this convergence will happen at a much more faster pace than what we have seen in the past?

K. Srinivasan: Okay, to answer your last question first, the Nashik forging fabrication plant is commissioned and running from December in terms of billing internally. This will scale up in terms of, because it is stabilized, now you'll have to scale up in terms of volume, and it will increasingly get in. At least 75% will be internal to start with, and we'll only do external after we meet our internal requirement.

The forging plant will primarily make blanks for our rotors, for our gears, which goes into our centrifugal, and also to some amount of gears that we sell to the railway. So this is broadly the area of work. It gives us a very strong competitive advantage in these days. We have only two areas which we said were a drag. One was the transmission business, and the other one was the RoadRailer. Transmission business, we have repurposed it.

We use it for our centrifugal, and we do sell our extra capacities to the railways. It is not losing cash even as we speak today. At the end of the year, it will probably not even make a loss even in the PBIT level, and it will definitely not make any more losses once the forging business runs flat.

So that's one thing out of the books. The RoadRailer, we have been trying to find a more logical owner for it. This is a process, and since we are pretty open about wanting to get rid of it, I think the kind of prices and the ask is very unreasonable.

Even some people who have put in bids have then come back to renegotiate downwards, which we think is not done. So we are not rushed or being forced to sell at a price. We will do it at a right price.

Prolin Nandu: Fair point. Just one last question. What is the annual drag of this RoadRailer business, if you can help us with that?

K. Srinivasan: Look at it like this. We said last year about INR60 crores is the negative impact between the compression segment and the corporate. Half of it comes from the business. Half of it is a corporate allocation. So that half is between road railer as well as the transmission, and that will go away next year.

Prolin Nandu: Okay, understood. One last question, sir. You have mentioned in the press release that there have been some delays at the EPC contractor in terms of site clearance and so on and so forth. So is this for the export business, or are you talking about the domestic business?

K. Srinivasan: It's all domestic because there are no more big export packages going out.

Prolin Nandu: Okay, thank you, sir. Thank you.

Moderator: Thank you. The next question is from the line of Nikhil from Simple. Please go ahead.

Nikhil: Yes, hi. Just two questions. Sir, if we go through our calls of the last two, three years, we were trying to build the export business not only on oil and gas, but also on the refrigeration packages. But not much has happened. If you can just help us understand, our stated ambition was to make it at least double digit on the export side. So what is preventing us?

Because although we had all the API approvals in terms of products for oil and gas and everything, so why is the scale-up being so slow on the export side? And the second question was on this INR2,000 crores. And we had stated that in order to reach the INR2,000 crores, our order book should be something like INR1,750 crores to INR1,800 crores.

Based on the products which we had launched in the last two years, like the Khione, the Centrifugal and other Calana and all, how confident do you believe that all these three, four new products and the existing momentum can take us to an order book of INR1,750 crores to INR1,800 crores next year?

K. Srinivasan: Okay, I'll answer the last question first. First nine months, 1546, so we will reach at least 1800 plus or even more even in this year. So that order booking number will happen. Now to come to your question on the refrigeration. We did announce export would be for us a specific geography. We would only do package exports primarily to Middle East, that is MENA region, North Africa, Middle East, and also try and get into Southeast Asia by a baby step.

We made an investment in a person and started looking at doing some work in Southeast Asia. And we said the only two packages that we will sell are the gas packages as well as the refrigeration. We did sell one refrigeration package last year. We sold one which went into Oman. That has been completed.

We are in discussion for several more refrigeration packages. Unfortunately, they have not got finalized yet. Unlike in the gas packages which get finalized faster, the refrigeration packages seem to be an area where there is far more level of competition and they take a longer time also to finalize because it comes relatively at a later stage in the execution.

We are hopeful that this year we will probably announce in the next earnings call some more finalization in this space. We are working very actively on it and some of them are under serious final discussions.

Nikhil: Okay. And last question. On Khione screw compressors, the idea was that there was a large import substitution kind of a market because the dairies and all the compressors which they were using were imported. Since our launch, how is the scale-up? Because in the last or last to last call, you said that the scale-up has been slower than what we expected. But any improvement or anything which you can share on how we are looking at things moving up for us on the Khione side?

K. Srinivasan: So I did mention in the opening call itself, what we did do is we reprogrammed or repositioned the way we are selling Khione. Historically, we were selling what we call as reciprocating ammonia compressors as bare shaft compressor to OEs who in turn buy it, build packages and deliver to the end customer. We did the same with Khione and placed it against imports because we thought imports are being bought by the OEs the same way and this should also work in the same way.

We didn't get many orders and when we realized that we hardly had a few orders for a whole year, then we had to go back and re-look at our assumptions. We then have changed the model which we announced already that we now convert them into what are called as chiller packages. We build the entire package and offer it to the end customer to integrate.

Now this has been more successful. We have already handed over two packages. Here it takes a longer execution cycle. We have to do a lot more engineering work, but still this seems to have a better traction. We have already had two packages going out. These are mini packages compared to the large refrigeration packages.

Hopefully, this process will allow us to scale up. Now a couple of quarters we run this, we will get a better feedback and then we will see whether we convert it. Because we are not keen to be a package builder, we would be happier to be an equipment supplier.

So we will play around this for some more time, two quarters, and then see whether we can have half and half. Some going as bare shafts, some going as packages.

Nikhil: Why we don't want to be a package player in this market? Because in CNG and even in refrigeration, we were an equipment seller as well as a package seller…

K. Srinivasan: This is the model that we are following now, but in the longer term as a Company, my business has to be less lumpy. My execution cycles have to be as short as possible. A package seller is location-wise specific. Each application I have to build a package and deliver. It generally becomes even the smallest of packages. We are talking of already about 24 weeks, 30 weeks, 40 weeks, etcetera.

An equipment seller can be built to plan, not built to order. Which means I can do it every four weeks, six weeks, etcetera. As a business model, if you are making the same margin, your velocity of business makes your business far more profitable if your cycle of execution is significantly smaller.

Nikhil: Sir, is it right to say that in the next three to five years, the counters of the business, which is currently like 60-40 package equipment, may move more towards equipment and less towards overall on a package side?

K. Srinivasan: That is an announced aspirational target to flip it around. We said early, quite some earnings callback itself that we are 60-40 in terms of package to equipment. We would like to flip it around to 60-40 in favor of equipment to package.

Nikhil: Sure, sir. Thanks a lot. Thanks for taking the question.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to management for closing comments.

K. Srinivasan: First of all, thanks for all your interest. I know it has been a couple of quarters of very muted top line growth. We are aware of what we need to do and we are working on it. Like I keep saying, what you are seeing outside is what we achieve. What we are doing inside is a lot of work that will allow us to get a future that is more meaningful and interesting for all of you. We hope to be there when we talk to you next in April. Thank you all very much.

Ramesh Birajdar: Thank you.

Moderator: Thank you. On behalf of Antique Stock Broking that concludes this conference. Thank you for joining us and you may now disconnect your lines.