“Kirloskar Pneumatic Company Limited

Q1 FY'25 Earning Conference Call”

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

Moderator: Ladies and gentlemen, good day and welcome to Kirloskar Pneumatic Company Limited Q1 FY25 Earning Conference Call, hosted by Antique Stock Broking Limited. 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 star then zero on a touch-tone phone. Please note that this conference is being recorded.

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

Amit Shah: I welcome you all to Q1 FY25 post earnings call of Kirloskar Pneumatic Company Limited. To discuss the results, we have with us senior management team of the company, represented by Mr. K. Srinivasan, Managing Director of the company, and Mr. Ramesh Birajdar, CFO of the company.

I'll hand over the call to Mr. K. Srinivasan for his opening remark, post which we can open the floor for Q&A. Over to you, sir.

K. Srinivasan: Thank you, Amit. Good evening to all the shareholders and participants in this call. Thank you all for joining the call today. I have with me Mr. Ramesh Birajdar, the CFO and Mr. Jitendra Shah, the Company Secretary. Before we proceed with the business update, I would now request Jitendra Shah to read out the disclaimer statement. Jitendra, please.

Jitendra Shah: Thank you, sir, and good evening to all. 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 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: Thanks, Jitendra. So, let me now proceed with the business update. The year F-25 started with rather a lukewarm start. We had an unusually warm summer and a rather extended general election schedule. All this meant that site work at most projects was almost at standstill. Whatever little work picked up, really picked up only from June.

Sales in Q1 was at INR275 crores against INR242 crores of the previous year, a growth of 13.6%. Almost all of it was from domestic sales. PBT at INR36 crores was 53% higher than the last year, which was INR23 crores.

Order booking was strong, and this leaves us with an order book of INR1,618 crores as of 1st July 2024 as compared to INR1,350 crores as of 1st July 2023, an increase of 20% over last year. The inquiry pipeline and the orders on-hand allow us to meet the planned growth for the year. In Q1, we had 15 IP filings. Like I said, since external activities were delayed due to slowing down of activities, we used that time to do a tremendous amount of work on IP filings.

The order intake for Tezcatlipoca, Calana and Aria compressors as well as the Khione screws were all in line with our plan and this bodes well for the entire new product development and scaling up process. In-house manufacturing of forgings and fabrication, etcetera at Nashik scaled up and this is helping us to improve both throughput time as well as margins.

The company entered into an MOU to acquire majority stake, more than 51% in Systems and Components India Private Limited. Systems and Components are a reputed supplier of refrigeration packages to the pharma, chemical and food sector for over 30 years now. They have over 700 successful installations across the country, and we expect that this acquisition will give us better access to this rather faster going segment of the refrigeration market.

The net working capital was at INR252 crores as of 30th June 2024. This is lower than the net working capital as of 31st March 2024, primarily coming out of recovery from debtors and receptive advance from customers towards the executable orders that we have. Consequently, the free cash generation during Q1 was at INR30 crores.

Let's look at the results product line-wise. The air compressor business was really muted. We had only modest sales growth in this. However, the two new product lines, the Tezcatlipoca Centrifugal Compressors and Aria Standard Screw Compressors had good traction in the market both in terms of inquiry and new orders. Clearly, the Tezcatlipoca, we have a winner as far as centrifugal compressors go, and we expect to announce good results in this going forward.

The re-launching of our portable compressor for construction and mining industry was well received with very good inquiries. This segment is seeing strong traction, and we hope to benefit from this. Refrigeration systems, we continue to have strong sales of Bare-Shaft Ammonia Compressors used in cold chains and ice plants. We remain a dominant player in this segment.

With the commencement of the Khione refrigeration package sales and installation for the food processing plants, diaries and pharma industry, we have finally made an impact in this market. We expect this to scale up going forward. The refrigeration packages for the various petrochemical and refinery projects, those significantly delayed have started moving from June.

As I speak to you now in July, we are having now, dispatches which were all in the pipeline for several months going out one after the other. We expect that there will be now an acceleration in the projects getting cleared and the packages moving to site. We continue to battle with delays in compressor supplies from Europe, primarily Howden and hope the situation will ease from the third quarter. With a very strong order in flow in this space and with several new projects, this would be an area of growth for the company for the ensuing years.

Process Gas Compression Systems execution of packages for oil and gas projects in India was as planned. However, we could not ship a couple of project packages that we built for the MENA region which we will ship in Q2. Offtake of CNG packages and Cālanā Booster was way below plan. We expect things to improve only going forward. As of today, this is still a laggard.

There have been several uptake in both inquiries and finalization of orders for Biogas Compressor Packages. However, the actual offtake and execution will all commence only from Q2 and Q3. We expect this business to become a very significant business only in the year F-25.

Orders for Gas Packages to MENA region is gradually starting to tickle in. We expect that this will stay at last year's level. Export as a whole will be about INR100 crores this year and we will only grow marginally compared to what we did last year. The tie-up with PDC, LLC of USA allows us to offer a comprehensive solution for the hydrogen generation, compression, and distribution. This is a big step forward to participate in the green hydrogen projects which are all under discussion. We hope to finalize a couple of them during the next two quarters.

O&M sales and service continues to grow with additional install base, and this is now a profitable and successful business. Outlook for Q2 F25, economic activity is picking up after the summer and election hiatus; we are already seeing a greater thrust to complete orders. We expect further impetus in manufacturing in India as a part of the government's job creation initiatives. This should help us in generating more demand for our products in the rest of the year.

At KPCL, the strong focus on in-house manufacturing and IP creation plus a very localized supply chain will help us not only to have the quickest response to customer needs, as well as a more competitive cost position. This will help both in our top-line growth as well as better growth in margins.

With a strong order book, we expect to deliver the planned double-digit growth and we hope to come back to you in October with much stronger numbers to report. We are clearly on the path to meet our aspirational target of INR2,000 crores next year.

Now I'm going to request Ramesh Birajdar to take you through the numbers and then we'll take your questions.

Ramesh Birajdar: Thank you. Good evening everyone. We have uploaded our presentation for the investors on the company's website, as well as posted on the BSE and as well as NSE website. Let me summarize Q1 performance of FY25.

The sales of the quarter were higher compared to Q1 sales of the previous year. Sales at INR275 crores registered growth of about 13.6% compared to Q1 sales of previous year. Other income for Q1 was at INR4.44 crores, previous year INR5.74 crores, contributing total income of the company of INR280 crores for the current period up from INR248 crores. Other income primarily comprises of interest income, the recovery of LD charges.

Additionally, in FY '24, other income included of INR1.40 crores from surplus on account of transfer of assets. Metal cost to sales in the current period stands at 48.9%, reflecting 2.3% improvement from Q1 of previous year was at 51.2. This enhancement is attributed to more variable product mix, increased volume and internal manufacturing of select components.

Employee-related expenses amounted to INR43.12 crores in the current year compared to INR41.6 crores in Q1 of previous year. This represents 15.4% of total income in current year, down from 16.8 in previous year. A moderate salary increase for employees has been implemented from 1st April of FY '25.

Financial charges are paid to banks for services not related to any borrowing. The company has no loans, neither term loans nor working capital loans and it maintains the status as debt-free company. Depreciation for the current year amounted to INR7.75 crores compared to INR8.7 crores in previous year. The decrease in depreciation is mainly attributed to discontinue of RoadRailer business during FY '24. Other expenses are a mix of fixed and variable costs and are at 20.8% upsells in the current year compared to 20.2% upsells in previous year. There are no significant variations in the level of expenditure during the current quarter.

EBITDA in Q1 has improved to 15.6% of total income compared to 13% in previous year. Current year EBITDA of INR43.7 crores, Q1 previous year EBITDA INR32.22 crores increased by 34%. Profit before tax for Q1 was at INR36 crores, higher at 12.8% compared to 9.5% in Q1 previous year. Q1 previous year PBT was at INR23 crores. This represents 53% growth over previous year.

Profit after tax increased to INR26.9 crores at the rate of 9.6% compared to INR17.9 crores in previous year, 7.2% witnessing growth by 50%. Company has issued 35,900 equity shares, previous year in the same quarter 20,200 shares during Q1 under Employee Stock Option Scheme. Consequently, Paid-up Share capital increased to INR12.96 crores from INR12.95 crores at the start of the year.

Basic earning per share improved to INR4.15 per share in Q1 compared to INR2.77 in Q1 of previous year. With over 90% of revenue coming from the compression segment, it remains only reportable segment and this segment represents profitability to 19.1% in current quarter compared to 16.5% of previous year. Capital employed in the compression segment decreased by INR7.5 crores to INR289.8 crores compared to INR294.4 crores at the beginning of the year. Strong order booking, new order booking during Q1 was close to INR421 crores. As a result, company has order book of over INR1,618 crores as on 1st April 2014, 20% higher than previous year at the beginning of Q2.

Now this forum is open for discussion with our esteem investors.

K. Srinivasan: Thank you Ramesh.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bhuvan MG from Tiger Assets. Please go ahead.

Bhuvan MG: My first question is, what is the update on the hydrogen compressor segment and what is the revenue potential and market size in India?

K. Srinivasan: A hydrogen compressor like I have always kept saying is something that has been around for more than 100 years. What is now taken up new is the generation of green hydrogen and use hydrogen as an energy vector in place of other energies. Here, the first step in this is actually getting the electrolyzers in place.

Most of the electrolyzer projects have all started coming up. There is already a Gale project which is operative. With the electrolyzers in place, people are now looking at compression systems. This is where we come in. We are in discussion with several of the large players who have set up electrolyzers for compression systems. So far, none of the big orders have been finalized.

We expect some of them to get finalized during Q2 and Q3. There is a lot of pressure to get the systems quickly in place. Once the electrolyzers are running and the compression system is put in place, then it would be compressed and the hydrogen taken for distribution, be it in the same location or at other places. So, major orders will all get placed during Q2, Q3.

Bhuvan MG: What is the market size for this?

K. Srinivasan: This business is evolving. It is too early to talk of a number. What Government of India has committed, COP28, is that we will have 5 million metric tons of green hydrogen produced by 2030. This would require anything up to 15,000 crores of investment. Compressor business out of that would be between 2% to 5%.

Bhuvan MG: That was helpful. What is your deal with PDC machines? What I want to know is that you buy from a US company. You buy from the US and sell it in India. Is it an exclusive deal or any kind of other arrangements?

K. Srinivasan: Our arrangement or our working relationship with PDC goes beyond buying and selling. They are one of the world's leading players of diaphragm compressors. We would work with them to bring in diaphragm compressors into India, primarily for the hydrogen market, but also into other markets. The design, engineering, building the package, installation and operation of the compressors would be done by us. The diaphragm compressors initially would be imported from PDC USA. It is an exclusive arrangement for India and a participative arrangement for the rest of the world.

Bhuvan MG: Is there any provision for transfer of technology something like that?

K. Srinivasan: We are working on co-creation projects. Here, elements would come from them. A lot of it would be built by us. There is an inherent transfer of knowledge up and down. Would we eventually make the diaphragm in India? That is something that we will have to look at going forward.

Bhuvan MG: And what percentage of the overall cost of setting up a CNG and a biogas-station is for compressors?

K. Srinivasan: That is a difficult question. Because you see, we only use a compressor package for a CNG pipeline after it is set up. Somebody wins a PNRGB order, gets a GA geographic area, he then installs the pipeline, and after the pipelines are installed, we only use a CNG compressor which is there for dispensing gas into the vehicle. This would be a very small percentage of the total. The biggest investment is actually to set up the gas pipeline.

Bhuvan MG: Can we expect 1% or 2% of the total set-up cost to be for compressors?

K. Srinivasan: No, this will be extremely difficult to guess. I will give you another thing. If you look at PNRGB, Petroleum and Natural Gas Regulatory Board site, they tell you in each of the auctions, they have finished up to 11 rounds of auctions, 93% of the Indian territory is covered, geographic area, 96% of the population is covered. They have a schedule of installation of compressors. It works out to something like near 12,000 compressors for the five-year period. So that is very clearly put out.

Moderator: The next question is from Vivek Gautam from GS Investments.

Vivek Gautam: About the opportunity size for our products in India and the expected growth rate in the next two to three years, what were the factors which had kept our company slightly behind earlier and now things are improving? Thank you.

K. Srinivasan: I understood it right. We are into three verticals. The air compressor business is about 20% to 25% of our total sales. The air compressor market in India alone is around INR5,000 crores. So, we are only less than between 5% to 10%. The gas compression system in India could be anywhere between INR2,000 to INR4,000 crores depending on what all we would include.

Our share in this is relatively high in the areas we address. The refrigeration segment market is anywhere at least INR2,000 crores and we are pretty small in that as well. So really overall there is a huge headroom for growth even in the Indian market.

Now as KPCL today our split between the three product lines like we keep saying air is about 20% to 25%, refrigeration is about 30% to 35% and gas is about 45% of our total business. So, in all the three segments there is significant headroom for growth in India and we are not even looking at the moment at the opportunity that is outside except for addressing the MENA region for our gas packages.

Vivek Gautam: And sir, basically how much more gas potential, pipeline potential remains in India? Still a substantial one or more or less the Indradhanush pipeline status if you can say for example in Northeast and East India. And what about the coal gas and the CBG? Is the opportunity size over there also quite good for our company and Indian gas sector in general sir?

K. Srinivasan: Yes. So, if you look at the gas business per se, the PNRGB website will show you that there is at least another 12,000 gas stations to be put out and all these 12,000 gas stations would either have a CNG compressor or a booster compressor. So even if I take a split of two-thirds being boosters which is easy to set up and one-third being CNG what we call as the mother stations, the size of this opportunity is at least about INR18,000 crores.

And it is largely a duopoly for the CNG packages. For the booster of course there are many players. So, this opportunity for us conservatively is at least about 40% of that. So, it is a big opportunity for us in five years. Now as far as the biogas is concerned, you would have seen that Government of India has announced that they would like to put up 5,000 biogas stations. There is a separate scheme that has been announced for the gas marketing companies to buy biogas from the various producers.

Large Indian corporates have all announced significantly large biogas plants. At the moment biogas is largely produced from three sources. It could be from the red mud from the sugar mills, it could be from the urban waste, or it could be from spent wash from distilleries. Most of the people are setting up in one of the biosource. This opportunity is at least another 5,000 compressors in the next five to eight years. Average size of this would be about a crore. So that is another INR5,000 crores opportunity out there anyway between five to eight years' time. So, these two itself are fairly large. Now coming to coal gasification process, there is one that was set up many years back and we were the ones who set up compression systems for it.

Currently, coal methanization is running more strongly than gasification where low-grade coal is being converted into methanol and it is added to the liquid fuel. Here again compressors are required, and we are a part of a couple of projects where we have delivered compressors for this purpose as well. So that again is an evolving opportunity. I cannot put a number on this at the moment, but this is also something that is scaling up. That is a long answer for your short question.

Vivek Gautam: And what about the opportunities like Indradhanush pipeline and other pipelines if you can sort of give some color on that for helping us in the long run?

K. Srinivasan: For the pipeline itself, we do not supply compressors. These are axial compressors. We do not supply them. We supply only at the point where the pipeline comes into city gas for distribution. That is where our compressors work. There are very few areas where we put compressors for moving gas through the pipeline. We have got one leased compressor that we have put out for a fertilizer plant in Andhra but otherwise we are not really in the gas transmission through the pipeline.

Moderator: Thank you. The next question is from the line of Mihir Manohar from Carnelian Assets Management.

Mihir Manohar: Yes, hi. Thanks for giving the opportunity and congratulations on a good set of numbers, sir. Sir, lastly, my question was around this Nasik forging plant. You know, if you can provide details as to what we were doing earlier before putting in this plant, expansion of this plant and how is it getting insourced, that would be helpful. And broadly, what part of the EBITDA margin expansion is coming from this particular activity that we have done? That would be helpful.

Second question was on the order book. If you can quantify, what is the number of mother compressors and number of booster compressors, the absolute number, which is sitting in the order book currently?

K. Srinivasan: Okay. I will answer the first one. Nasik plant is a legacy plant that has been with the Kirloskar group at least now for 40-odd years. It was a place where tractors were made and then we had RoadRailer getting manufactured there, etc. And after the RoadRailer activities was discontinued, we have decided to use the plant for our internal requirements, primarily for fabrication as well as forging. We are looking at doing several other things there and we will announce it after these plans are commissioned.

This would be a manufacturing location, primarily manufacturing inputs that go into our compressor building. First phase, we will make it primarily for our internal requirement, but we always keep it in our mind that at least 25% of the capacity will be for outside customers. This is to ensure that the competitiveness of the product is continuously stress tested.

In terms of what improvement, it has given in our EBITDA margin, I would think it is, now that I said we are keeping it as something that is a part of the total EBITDA margin improvement, it is in a couple of points at the moment, but more importantly, there are three levels of improvement. One is how does it allow us to save cost? More importantly, how does it allow us to speed up our execution?

Doing it in-house allows us to do it faster than doing it with others, which means my overall time the package stays within our system is reduced. So let this settle down and evolve and then we will give you a much clearer number as far as EBITDA improvement. But the overall impact of EBITDA improvement is something that we always have been giving guidance.

The compression segment EBITDA margin has remained 18% plus. We are directly taking it up to, directionally up to 20%. The company's EBITDA margin has always been between 14.5 to 15, which again we are saying we will directionally take it up to 18%. And all these activities, be it manufacturing in Nasik, be it ensuring that the supply chains are shortened by ensuring everything is within the system, all that would be steps towards it. The second question you asked me is on order for CNG stations, breakup between mother stations and daughter stations. Okay.

From the PNRG website, you will see that they have been saying that there are over 5,000 plus gas stations commissioned in India. And they got numbers anywhere between 5,650 to 5,850. So, you can see the numbers available.

We believe more than two-thirds to three-fourths of them are actually booster stations. Our share in that is very modest. The rest of them are CNG mother stations and our share would be broadly in that anywhere between 45% to 50%. That is our market share. Although on hand, I can't give you an exact number, but I can tell you that we have more than 100 compressors, both mother and daughter, as orders on hand. And that is good for our at least one quarter of dispatch. We still need to get clearances to make those commissioning.

Mihir Manohar: Sure. That's helpful. And my last question was just on the RoadRailer side. I mean, we had marked this for hiving off last, I think last year itself, 1 to 24. But we haven't seen development over there. So, what is the status over there?

K. Srinivasan: I think we already announced during the last year that the assets of RoadRailer have been written down and we hold what is left as assets held for disposal. So, it is really not carrying a depreciation or anything. The business is in a way not operative. We will continue to find a buyer who will take it. Today, it has come to a stage where it will be primarily an asset disposal activity. Hopefully, we should complete it during this quarter. It will have no material impact on our financial statements or account because that has all been digested in the last year.

Mihir Manohar: Understood. Sure. That's it from my side.

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

Sanjaya: Yes. Hi, sir. Thanks a lot for the opportunity and congratulations for putting up a decent sword despite macro issues like election. Sir, I have some specific questions relating to the numbers. So, in this quarter, we saw that sequentially employee benefit expenses went up somewhat. It looks like there is some amount of. Hello.

Management: Yes, go ahead. Go ahead, please.

Sanjaya: Yes, there is some amount of seasonality to the employee expense. The second main thing that I really wanted to understand that this quarter, your gross margin improved quite significantly. So, if you can just tell us what really is the reason behind this expansion of gross margin?

Ramesh Birajdar: If you compare June 23 Q1 and June 24 Q1, the sales, it is up by almost INR30 crores. So, the top line increased by almost 13.6%. This is one is the volume growth. And the second thing, we are already doing the internal cost reduction at our company level, and that is impacting to improve our margin.

And as far as employees are concerned, from June 30, 23 to June 30, 24, it is an increase of roughly INR2.5 crores. It is mainly on account of merit increase or salary increase effective from April 24. So, percentage-wise, if you see, the employee cost, which is 16.8% in previous year, now it is reduced to 15.4%. So, the salary increase is not giving that much negative because it is a moderate salary increase given to our lowest employees.

Sanjaya: Sir, if I remember correctly, last year from the first quarter, there was some adverse impact, which is why the margin had gone down substantially. I do not know what, I fail to remember what exactly it is. But what really I want to understand is that considering the kind of gross margin expansion that has happened, possibly because of your forging plant as well, if this kind of gross margin will sustain, should not you really be looking for a much higher level of EBITDA margin?

K. Srinivasan: This question, we took it up several times and I will give you a little bit of a strategic view on it. See, the business itself can deliver at least 20% EBITDA margin. I am talking of operative margin. We are still sitting with a bit of cash that is only covering interest cost. So, this can deliver more than 20% margin. We have to pick and choose volume versus margin. Today, our chase is to see that we get a 20% plus growth year on year and looking at volume growth as a driver, keeping in mind that we do not want to directionally go anywhere nearer to the earlier margin.

We want to be staying at about 18% to 20% always. So, we are mindful of the fact that we need to look at both. If I can do it quicker within our factory, I would rather pass on the benefit to my customer and get material out of the factory rather than trying to make another percentage point more on EBITDA.

Sanjaya: When you are talking about operating margin, I am assuming you are talking about EBITDA and not EBIT?

K. Srinivasan: Correct, EBITDA.

Sanjaya: So, thanks a lot for this clarification. Coming back to your top-line growth, which you have said that you will be able to make up for this kind of loss that we saw in June quarter, in September quarter itself and your order inflow is, of course, rising. But you also mentioned that exports is something which you may not really see much of growth this year as well. So, all your growth, I am assuming that will be driven by domestic market only. And within that, will it be mainly led by your CNG business, or it will be like across the board and because of your new product launches?

K. Srinivasan: Yes. So, we are given a split between the three businesses. Roughly 40-45 is gas, 30-35 is refrigeration, 20-25 is air compressors. So, broadly, all the segments would stay within this range. I have kept a 5% depending on quarter-wise execution goes up and down a little bit. This modeling is also done with the view to ensure that there is a fairly good spread of capex spend so that there is no deep cycles coming up.

The industry-driven business is the air compressor business, which runs primarily with GDP. The gas business is a large, deep capex cycle business which today is running well, and we hope to see big execution. But the refrigeration business is something where we have, let's say, the food and dairy, pharma, etc., which is relatively more stable and uniform. So, our modeling is based on some stability and predictability on market growth. We believe that this can deliver a long-term 20% growth year-on-year for quite some time to come in the Indian market alone.

Sanjaya: And you are not really looking at exports recovering any time quickly. I mean, it is going to be better than last year. Last year, there was a big, big growth.

K. Srinivasan: What we have chosen to do is, in this first phase of growth, this is a relatively modest-sized company even by Indian standards. The addressable market for us is, based on the product line, very different. For the refrigeration business, it is a global market.

For the gas business, it is predominantly looking at MENA region and now a little bit into Southeast Asia. The air compressor business again, is a global business. But as a business, you need to be locally present in the markets that you seek to address, which needs upfront investment. And we have chosen not to do it at this phase of our growth plan.

Sanjaya: I can just ask two more questions. One, again, on the margin. So, if you can just help me understand the impact or the benefit of specifically this forging plant. And the second thing, I could not really understand the thing that you were talking about some components which are taking some time or getting delayed in coming. I could not really understand that aspect of the business?

K. Srinivasan: Okay, I will explain that first. See, we actually have the refrigeration packages that we deliver to the ammonia terminals and the fertilizer plants etc., using a compressor that we get from a UK company called Howden. Now, Howden of UK is a global supplier for this. And they are so overbooked and stretched that they have been off delivery significantly. Their delays are not in weeks, they are in months. And that has put a tremendous pressure on completion and execution of a project.

A gas compressor, which are from Howden, would be maybe 15% of my package. The rest of the items are sitting all set, ready, inspected, installed and waiting for a compressor to come means that I am really stuck with investments to complete large orders. This hopefully should get better.

It is getting better, but it is still going to take at least two quarters before it completely cleans up. I would keep the forging plant benefit at the current level of disclosure because I think there are benefits, but I would like to be quiet on it at the moment. This is not a very big strategic step that is going to change everything.

There are large forges already around here. We are primarily using it for a few critical items, which if I don't do it myself, I end up paying through my nose to get it from whoever. So, to that extent, it makes a big difference to get my projects completed, particularly for my Tezcatlipoca, for my high-speed centrifugal, this becomes an important strategic advantage.

More than the margin, it is the availability and the speed at which I can execute projects, which makes a bigger difference.

Vivek Gautam: It look like there has been something other...

Moderator: Sorry to interrupt you sir please rejoin the queue. Thank you. The next question is from the line of Bharat Shah from ASK Management Investments Managers Limited.

Bharat Shah: Hi, Srinivasan.

K Srinivasan: Bharat bhai good evening.

Bharat Shah: Good evening to you. Already before I could ask the question I think you alluded to it talking about the growth where you mentioned about 20% kind of a growth for a long period of time purely out of domestic market. So which was basically the question I wanted to understand. Given the burgeoning overall size of opportunity, our own product evolution path, new product launch program and generally favourable new vehicle is emerging like H2 and others, both is the possible kind of growth and for how long?

So you answered that question while answering to some other participants. Let me just add one point to that given all of these and the generally greater thrust and hunger to achieve what is due to Kirloskar Pneumatic for a long time, should we not be thinking of a greater growth rate than 20% and for the longer period?

K. Srinivasan: Bharat Bhai I think that is a very valid and a pertinent question. Let me put it this way. I would really like to model the business to ensure that we do not have this lumpiness. We still have a modest first quarter. We are going to have probably an outstanding second quarter then we have to explain why the third quarter becomes a little lower than the second quarter, etc. So we first have to move this business to a far more smoother predictable model before we aspire to scale up the pipeline even faster.

So the first phase of transition is going to be predictable, smooth growth over and above that an accelerated growth all within the ambit saying that our margin should be above 18% as a compression segment and company directionally should get to 18% EBITDA margin. So overall looking at putting it into a very predictable, profitable, growth oriented structure and this is being driven by three, four verticals, short supply chains, key parts being made in-house, very strong R&D investments to ensure that there is more of a knowhow, know why creation within the Kirloskar Pneumatic ecosystem and also addressing what are called as less contested markets where the scale-up is faster and the margins are better and we don't really go around destroying markets.

So we are looking at multiple things at the same time and so we will first start delivering one or two quarters smoothly and then I take your point this business doesn't deserve to be so frugal in its growth ambitions. We can start being more aggressive, but we will get there step by step.

Bharat Shah: Sure that answer is great. You mentioned the four key components of the strategy I missed one strong R&D in less contested markets, supply chain shortening which was the fourth one?

K. Srinivasan: I think I covered all the four. Modelling is primarily based on the spread between the three businesses. We also are modelling deliberately between the gas compression, refrigeration and air compressors in a broad split of 20-25, 30-35, 40-45. This again is to take out the big cycles of capex and let us say the execution being far more smoother less lumpy.

Bharat Shah: Okay so balancing among the verticals and the areas of focus. Thank you I got all the good answers on this.

K Srinivasan: Thank you sir.

Bharat Shah: All the very best.

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

Dhavan Shah: Sir my question is on the MOU which was signed for System and Components India Private Limited. So, if you can share some thoughts on this I mean what kind of products does this company manufacture and how this will add synergy to Kirloskar Pneumatic and what is the historical revenue and EBITDA PAT growth of this company, the size of opportunity and at what cost are we acquiring this company?

K. Srinivasan: So I think let's complete the transaction. At the moment it is a binding MOU, due diligence is going on and I think in all fairness we should consummate the transaction before we can be far more, let's say, open to answer all these questions, but I'll give you a broad outline of what are the objectives. This company is in a synergetic business space. They are in refrigeration compression system primarily for the pharma dairy chemical industry.

They use compressors which are almost predominantly imported. In a way they are another part of the business that we don't do at all. We do the high-end hydrocarbon refrigerant business. They do the smaller businesses etc. So this is a space that we've always been eyeing at because it is a collection of many smaller industries, but large volumes. We are not present. There are not many great big players in this and these are very reputed technologies.

They are all ex-Kirloskar Pneumatic people who worked in the company in R&D etc for 30 years back. And so they have built a very nice niche business. It never did more than 50-odd crores in sales, but they have an exceptionally good relationship almost no marketing and we believe that our buying into them will help both the company and for us to grow in this area and that's the reason why we are looking at it. It's a joint effort. The current promoters and owners would continue to stay invested and help us to scale it up and corporatize the whole thing.

Dhavan Shah: Sure, and the last one is on the gas packages. I think you mentioned that some order inquiries from the MENA region has been picked up and we can see some orders maybe in the second half. So, if you can share your thoughts on this part plus the other export orders whatsoever are under the pipeline?

K. Srinivasan: So like I mentioned, export is not going to be a big part of our story this year. Some orders in MENA region that we are getting are not for the huge packages. They are for much smaller packages and we have these orders coming in even as we speak. We hope to complete them during this year itself at least some of them. They're not big packages, but they help us to keep it going.

Dhavan Shah: And given that there is some slowdown in the dispatches from the Howden for the Ref side of the business. So this year should we assume because I think the growth would not be meaningful in the Ref compressor than the...

K. Srinivasan: No, that's not a good assumption to make. You will see that it's going to grow well because like I said last year we had huge orders for all the ammonia terminals. We have to execute. We may be delayed by a couple of months, but if we don't execute big projects will get held up. So we will do it. We'll do it during the year.

Dhavan Shah: Okay. So, the second half would be lumpy in that case?

K. Srinivasan: Yes. So this will be lumpy in a positive way. We don't like it, but that's how it's going to be.

Dhavan Shah: Sure. Okay. Thank you.

Moderator: Thank you. The next question is from the line of Mahesh from LIC Mutual Fund. Please go ahead.

Mahesh Bendre: Hi, sir. Thank you so much for the opportunity. Most of my questions have been answered. Just one question. In the first quarter I think some of our sales were actually were not able to supply because of the constraint. So what was the quantum of that particular sales?

K. Srinivasan: I think it would be good to probably look at it after Q2 then I'll tell you how much would be the difference between two and you yourself would see. See it's very difficult to say what should have gone and what has not because it would be partly Howden and partly site not getting ready. So should be at least anywhere between INR30 crores to INR50 crores we could have done more.

Mahesh Bendre: Okay. And that will be booked in Q2?

K. Srinivasan: Not booked. It's dispatched.

Mahesh Bendre: Sorry, sir?

K Srinivasan: Dispatched.

Ramesh Birajdar: It is dispatched in the month of April -- in the month of July already.

Mahesh Bendre: Okay. So that will be seen in the Q2 numbers now.

Ramesh Birajdar: Yes.

Mahesh Bendre: Okay. And sir second question about the acquisition. I mean going forward also there are plans of putting up new companies in portfolio which will give us a space in terms of new markets and new clients. Are there any plans of looking for more acquisitions?

K. Srinivasan: See like we said inorganic can only be talked about as it happens. We continuously keep looking at inorganic opportunities based on three templates that we have kept. It could give us access to new markets. It should give us a new not new an extension of our product lines or it should allow us key inputs to what we make currently. We continue to keep looking at it, but we will do transactions only when it meets our requirement.

Mahesh Bendre: Sir last question from my end. What is the capacity utilization as of now?

K. Srinivasan: Anywhere between see there are different parts of the business. Some parts we are at 85%, some parts we are 50%. On an average I would say between 60% to 75%.

Mahesh Bendre: Sure. Thank you so much sir.

K. Srinivasan: Thank you.

Moderator: Thank you. The next question is from the line of Karan from PGIM India AMC. Please go ahead.

Karan Kokane: Yes. Hi, sir. Thanks for the opportunity and congratulations for a good set of numbers. Most of my questions have been answered. I just had one question. So you have spoken about INR2,000 crores of top line in FY26 and 18% to 20% kind of margins in FY26. I just wanted to know if you have any similar commentary for FY25.

K. Srinivasan: See FY25 we said strong double-digit growth. I do not want to change it. Let me complete October. I said it in the opening comment. After October we will all be in a better condition to answer that. Strong double-digit growth, margins directionally company 18% compression segment towards 20%. So these we stay with, and we will deliver on it.

Karan Kokane: Okay. And sir secondly you also talked about how many number of mother and daughter stations you have in your order book. I just missed that number. Can you please repeat that?

K. Srinivasan: So we said combined, we have more than 100 compressors on order.

Karan Kokane: Thanks. Those were my questions. Thanks. All the best.

K. Srinivasan: Thank you.

Moderator: Thank you. The next question is from the line of Manish from Thinqwise Wealth Managers. Please go ahead sir.

Manish Goyal: Sir if you can just provide insights as to how is the progress of installations of CNG compressors both for mother and daughter stations? And second question on biogas compressors like maybe if you can probably give us some insights on the size of the orders you have or all the revenues you can book in the current year?

K. Srinivasan: Manish, I didn't understand some of the question because the audio was loud, but I will try and answer to the extent what I understood. CNG compressors I believe there is a pickup in the installation. We will see more clearances coming up. As we talk to the different people around here we realize that there will be more clearances.

It is going to be largely daughter compressors or booster compressors what we call as Calana that will sell more because the pipelines all take time to be installed and they still are a work in progress. So as more and more Calana's go out the margins will not improve that is not an area where we want to do our business.

We would be happier doing the mother station business. This would hopefully start picking up a little later maybe third fourth quarter it should start picking up. So that is broadly what it is. We continue to be a duopoly as far as the CNG station business is concerned. In the Calana there are very many players, the margins are very thin, and we are not keen to grow that as well.

Manish Goyal: Okay. And my second question was on biogas compressors like probably what kind of revenues we can see in entire years?

K. Srinivasan: So in the biogas business except two large corporates all other people who are doing the installation and biogas plants are relatively smaller, little less organized companies. Consequently, while a lot of enquiries, orders are all under discussion. We expect that it would be a very checkered kind of an installation and sale. The bigger companies are not directly ordering themselves.

The big corporates that you would have seen announcements being put out are also not ordering these compressors directly. They are in turn giving the plant being ordered out to companies like Thermax, Praj, GPS, etc and the orders are being placed by these companies. We have tied up with all of them. We are working with them.

But putting up of these plants are not just a, let's say, industrial activity. It's a social industrial activity in many cases, because you are going to have urban waste collection, urban waste segregation, and then putting up plants. It is becoming a little more indeterminate in terms of the time it takes to put up these plants. The easier ones are where they have sugar mills, and there they are able to set it up faster.

I would leave it that there is a target of 5,000 plants in the next five to eight years, and we will be a dominant player in this industry. But like in everything else, this will take a little time in the beginning, and then it will scale up faster.

Manish Goyal: Sure. Thank you so much.

Moderator: Thank you. The next question is from the line of Viraj from Ambit Capital. Please go ahead.

Viraj: Thank you for taking my question, sir. My question is on the ordering prospects that you are witnessing on the process gas system side of CNG. So how has the ordering prospect over there evolved now versus a year or two ago and what kind of share would process gas systems of CNG form a part of the overall 40% to 45% of your business that process gas systems form?

K. Srinivasan: So, I think I have understood your question. Let me try and answer this. In the 40%-45% of the process gas business, the biogas and natural gas, all the gas, hydrogen, all that combined would be about 50%. The large packages which go for almost the oil and gas petroleum industry is roughly about 50%. They will be half and half.

Viraj: And, sir, how have the ordering trends evolved in this business? So, in case the upstream companies like ONGC and Oil India, if they go for enhanced oil recovery through gas injection or something like that, would you see an opportunity over there? And how has this upstream and midstream application evolved? And secondly, you have tie-ups with companies like Ariel and Gino in Italy for these kinds of packages. So, what is the kind of validation that you would be doing over here?

K. Srinivasan: I don't know about the tie-up. I don't think we have any tie-up with any of them. But what we do have is we have the compressors for the large packages, which is for the upstream, midstream, and downstream. These packages, the compressor we use is an API-approved compressor from Ariel USA. This is what is certified approved. And we use them in these large packages.

The compressor is anywhere between 10% to 15% of the total package. The rest of it is all the thing that we build here. The upstream, midstream, downstream requirements in India, in MENA region is still very, very strong. There would be delays in execution because these could all have EPC contractors in between. There could be site work-related issues. There are so many other things. But the demand and the projects that are coming up in this space is humongous.

As I speak, we believe till December is going to be a very, very busy time. There are a lot of things now clearing and asking us to move faster. But this is a business that we don't -- it's a big cyclical business, but it's still on the uptake. It is going to be strong at least for the next couple of years. Oil at $80 plus is a big time for this industry. Everybody is doing well.

Viraj: Next question is on the drag that is causing from the under-quoted segments. So, the under-quoted segment losses have kind of been curtailed. So, we are seeing that it is still at similar level as it was in Q1 FY'24. But do you expect the absolute number of loss that is happening from there to go down or the percentage term to decrease as the overall revenues that you are doing are rising?

K. Srinivasan: What you talk of as a non-reportable segment, that is we say the compression segment is about 93%. The rest of it is a non-reportable segment, which would include, let's say, some amount of legacy gears and transmissions that we still have. And that is not doing worse than it was. It is doing better than what it was. And you will see that the drag does have come down because our RoadRail business drag is gone. Most of the drag from the transmission is gone. So, by and large, I think you will see that it is coming down.

Viraj: Okay. And just one last question sir. Companies like Ingersoll Rand, they have announced huge capex on the air compressor side of things, where you are now starting to enter. So, do you expect pricing pressure for that segment for the air compressor division going forward once their capacities also come up?

K. Srinivasan: Let me put it this way. Our air compressor business is at least about 30-40 years old. So, we have been around for a long time. We have been always very strong in the recip compressor market. We were not in the screws. We were not in the centries. So, we are getting into these areas now in the last four or five years. And we have chosen to come into these areas with our own IPs, our own design, our own engineering, and our own creation. Today, in the centrifugal, if you look at the Tezcatlipoca, it is the most cost-effective, efficient centrifugal compressor in India.

The name you mentioned or anybody else cannot match it. The investments that we talk of coming from other multinational companies, I would urge you to look at their -- most of them have been around. The name you mentioned has probably been around for 100 years. Please look at the investments over a period of time and then look at -- they are all largely, let's say, integrating it in India. Their supply chains are anywhere between 7,000 to 10,000 kilometres. My supply chain is 400 kilometres. So, I think it will be very, very difficult for anybody to compete with us.

Viraj: Okay. Those are all my questions, sir. Thank you for answering.

Moderator: Thank you. The next question is from the line of Prolin from Edelweiss Public. Please go ahead.

Prolin: Hi, Srini. Thank you for taking my question. Just to double-click on one of the answers that you gave to make the business a little less lumpy and a little more predictable. And you said that there are three, four drivers, two of them being strong focus on R&D and entering some of the uncontested market.

K. Srinivasan: Less contested spaces.

Prolin: Less contested spaces, correct. So, just from an organization point of view, if I'm not wrong, our contribution from new product was anywhere between 2% to 3% for FY'24 sales. So, where do you want to take this number to, you know, in the context of making business less lumpy, more predictable?

And at the same time, we still do a lot of packages, right, wherein just in the previous answer, you said that we source the compressor from some of the players. We do everything else in terms of package and then sell it across, right? So, in that context also, how do you see us moving towards in-house production of the heart of the package, which is compressor going forward, right? So, yes, that's my question.

K. Srinivasan: Okay. I think it's a very, very, very important question and let me answer it. I'll take a few minutes. See, what we're doing is all the new businesses that we're trying to build are based around not only just creating new compressors, but also creating new capabilities. Today, when you integrate a package, there are so many things that go along with the air end, as we call the heart of the compressor, to complete a package. And we are trying to do most of it ourselves to see that we are competitive. And also, we have a certain leverage on the timescale, the way we can engineer, how we can integrate the whole thing.

Only two large compressors we buy globally. And the reason for this is these are, let's say, global companies who make compressors for everybody. They don't do too many packages. One of them do no packages on their own. They only deliver this for others. And if you have to be in those areas, you need to have a global market. Our aspiration is not to get into those three, four spaces where those large packages are built with those proven compressors. But other than that, there is so much of a growth area.

For example, if you look at the refrigeration systems, there's a whole lot of growth areas, which is all very domestic growth area, I must say. India is still one of the largest, not one of the largest importer of refrigeration compressors in the world. So there's a lot of areas where we build entire packages here, including the compressors. That is where our new product activity is going on. You pointed out it is 2% to 3%, a little more than that. But I think you're right. Directionally, our new product sales will go towards 15% to 25% in the next couple of years. And that is when the growth would give us more handle, more margins, and also more predictability.

Prolin: Sorry, so what is this 15% to 25% as a percentage of sales?

K. Srinivasan: As a percentage of our total sales, we think what we will build as new products, our definition of new product is what is designed and built in the previous 3 years.

Prolin: Sure. So, from a 5%, let's say under 5% number, in a few years' time, you want to take this to 15% to 20%?

K. Srinivasan: That's right. At least 25% is our long-term target. See, large, very reputed global companies, to give a name, 3M would have a 25% target of new products. We would aspire to get there.

Prolin: That's it, Srini. Thanks a lot. That's it from my side.

K. Srinivasan: Thank you, sir.

Moderator: Thank you. The next question is from the line of Yagnam from Asian Market Securities Pvt. Ltd. Please go ahead.

Yagnam: Thank you. Most of my questions have been actually answered. Just one thing. I think you commented on the profitability of the gas segment, right? Could you please repeat and elaborate on that?

K. Srinivasan: On the gas compressor segment, is it?

Yagnam: Yes. I think I missed the entire sentence.

K. Srinivasan: Okay. So, if you look at our process gas business as we call it, there are two parts to it. One is which are large packages that are built for the upstream, midstream, and downstream gas gathering, gas processing, gas distribution. There we build packages using Aerial compressors. Aerial is one of the world's largest compressor, API-compliant for the gas industry, and we build API-compliant packages with that.

That is about half of our gas business. The other half is what we build with our own compressors. This could be for the mother stations, for the biogas plants, which is our new Jarilo range of compressors, the booster compressors, which is our own Calana compressors. So, this is the other half of the business.

So, these are the two half of process gas business. The margins are about the same. We keep saying, all three segments are modelling is based on approximately keeping the EBITDA margin the same.

Yagnam: All right. Thank you for that explanation.

Moderator: Thank you. The next question is from the line of Shirom from PL Capital. Please go ahead.

Shirom: I just had a quick question for you. You mentioned that you're aiming to keep your range between air, refrigeration, gas compressors to 20% to 25%, 30% to 35%, and 40% to 45%. And at the same time, you're talking about 20% to 25% long-term growth opportunity in your Indian business. So, could we expect that all these segments are expected to grow largely at similar rates so that this mix sort of remains similar, or will we see any change in this mix going forward?

K. Srinivasan: Yes. So, I think I had answered this question sometime back, but I'll explain this modelling. This split of 20%, 25%, 30%, 35%, 45%, etcetera, is an interim current step. In the immediate future, we're going to follow this to get our modelling right, our profitability right, our capex deployment right, our utilization of assets right, etcetera.

And also, to make the business less lumpy. We will have to relook at it as a new product starts hitting the market. If some of our products, for example, if you look at the Tezcatlipoca, Tezcatlipoca doesn't deserve to be just an India leader. It can become a global product. Then the whole modelling will have to be suitably changed depending on how the products take off in the market.

So, we believe that this, what we put out, is a guidance for the immediate strategy. We will modify it as we see more traction for our newer products, and with that, we will see how we can change these ratios that we talk about.

Shirom: Yes, that's much clearer now. Thank you. My next question is on, in your Annual Report, it's mentioned that the, the rough market size for, process gas, for gas compressor is about 4.7 billion, while process gas systems is about 24 billion. Is that basically the split between, 50% of your gas business caters to that 4.7 billion and 50% of your gas business for the large packages that caters to that 24 billion market? Is that…

K. Srinivasan: Yes, so broadly right, but there is some qualification. We still do not have compressors for the gas transmission through pipeline. These are large axial compressors. We are not in that business at the moment, so consequently, it's a little skewed in terms of global opportunity to what we seek to address, but broadly you said is right.

Shirom: Okay, and do you have a sense of, what this overall market can grow at over the next few years? Is there sort of a rough figure that we could expect? Because you mentioned that, the oil and gas market, at least in India and MENA region, there are huge opportunities coming in the next couple of years. How can we sort of quantify that opportunity size coming up in India and MENA for oil and gas packages?

K. Srinivasan: That's a tough one because, see, this size is dependent on what part of the projects get executed and they keep changing. So, I would still leave it like this, saying that the opportunities are out there. Some of them get modified, changed based on what gets executed and what keeps changing.

Oil and gas is one of those politically sensitive businesses that move up and down with whatever dispensation is there. At the moment, it's on fire and we're still seeing a lot of traction, but I would leave it at that and not predict too much into the future.

Shirom: And just, one last question on the gas packages. So, if, typically on a gas package, 10%, 15% is the compressor, which currently you procure from outside. You know, what else constitutes the rest of that package? What accounts for remaining 80%, 85% and how much of that does your company itself make in-house?

K. Srinivasan: So, in many of these big elements, we would still be an integrator. For example, there could be an engine, there could be a motor. We don't obviously make the engine or the motor, but we have agreements with whom we buy or whom we engineer it with because there's a lot of specking that goes into it.

The mechanical parts, most of it we make. Base frames, vessels, a whole lot of other things that we make. Piping, we would do all the bending and fitting and other things, but we don't actually draw a pipe ourselves. It would probably come from one of the pipe companies. It could be a part of the group. It may not be part of the group. So, like I said, it's like putting up a building. We may not actually make every bit of it, stone, bricks, everything, but we design, we do the integration, we build everything.

Shirom: Okay. That makes sense. Thank you. And just one last question on light. What is the typical sort of replacement cycle for compressors in industrial use? And as a lifecycle process, if you were to look at it, how much of it from some of the available information online, it's about 20% for the upfront investment in a compressor and 80% is typically the lifecycle cost. Is that roughly similar even for Kirloskar compressors?

K. Srinivasan: So, when people talk of a lifecycle cost, if they include the energy that goes into the compressor, then the compressor is a very small part of the total. The compressor is, yes, like you said, it's even less than 10% because there is energy and there is a stairs, there's a maintenance, there's an upkeep, a whole lot of things. So, you said it right, it's like buying the car. The car is the cheapest part of the whole value chain.

Shirom: We know that more energy efficient compressors being introduced in the market is that sort of trend changing where the upfront cost obviously would be a larger portion of the investment. Is that going to be the steady state going forward? Is that the trend in the market that now energy efficient?

K. Srinivasan: So far, actually, today, there are a couple of things happening. One is in several of the oil and gas stations, etcetera. If they have a gas coming in, then they actually use a gas engine itself. They don't go to an electrical motor or whatever it is. But if they have to drive it through motors, then obviously smarter motors are coming in. It's the same like the ceiling fans.

As you go more and more towards the BLDC to make it more energy efficient, better control, the same thing is happening with all running equipment. So, it's not just the compressors, everything that's being driven with power, there are smarter motors coming in. We too are working on it.

Let us talk about it at an appropriate time. But this is a global trend of energy efficiency, smarter equipment, smarter design. We are a part of it. At least we are very much part of it. We will make appropriate announcements as we get deeper into this.

Shirom: Thank you so much for answering all my questions.

Moderator: As there are no further questions, I would now like to hand the conference over to management for closing comments.

K. Srinivasan: I must thank all of you. We still have quite a bit of work to do to get on to more predictable numbers. I hope to be with all of you in October to talk about smarter numbers and better results. In the meanwhile, thanks for keeping your interest and wish you all well. Thank you.

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