"Kirloskar Pneumatic Company Limited Q2 FY-25 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day and welcome to the Kirloskar Pneumatic Company Limited Q2 FY25 Earnings Conference Call hosted by Antique Stock Broking.

As a reminder, all participant lines will remain in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded.

I will now hand the conference over to your host Mr. Amit Shah from Antique Stock Broking. Please go ahead sir.

Amit Shah: Yes, thank you Ryan. Good afternoon everyone. On behalf of Antique Stock Broking Limited I welcome you all to 2Q FY25 Earnings Conference Call of Kirloskar Pneumatic Company Limited.

To discuss the Results, we have with the senior Management Team of Kirloskar Pneumatic represented by Mr. K. Srinivasan – Managing Director of the Company, and Mr. Ramesh Birajdar – Chief Financial Officer of the Company.

I will 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: Thanks, Amit. Good evening to all of you. Let me start by wishing you all an advance a very Happy and Joyous Diwali. May the Festival of light bring us all peace, prosperity and progress.

Before we start, let me ask my colleague, Jitendra Shah – Company Secretary, to read out the disclaimer and then we will go into the call. Jitendra.

Jitendra Shah: Thank you, sir. First of all wish you Happy Diwali 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 very much.

K. Srinivasan: Thanks Jitendra. So, once again, good evening to all of you. Thanks for joining our call.

We had a very good quarter for good on all fronts, order booking, sales, collection and making the H1 an overall a good half year.

Sales in H1 was at Rs. 706 crores, as against Rs. 524 crores of the previous year a growth of 35%, most of the growth came from domestic market, export sales at Rs. 43 crores was better than the previous year's 38 crores. But it's nothing very significant.

Order booking was strong, and this leaves us with the order book of Rs.1,780 crores as on 1st October. This is compared to the Rs.1,450 crores on 1st October '23 is an increase of over 23% and that boards well for our next half year and going forward. The inquiry pipeline too is good, and we expect to have a continuing growth.

In H1 we have over 20 IP filings, this for us is a very important enabler to continue on our growth journey, the order intake for the newer products. Tezcatlipoca centrifugal compressors, Calana booster compressors, Aria frugal engineered compressors, Jarilo biogas compressor and Khione refrigeration compressors, all picked up and this boards well for the growing, continuing growth of the Company. Building in-house manufacturing capabilities has been a part of our ongoing theme to build sustainable competitive advantage.

Our Nasik plant is being further developed for this purpose, and we will continue to invest in this going forward. The Company signed a share purchase agreement to acquire 55.26% stake in M/s Systems and Components India Private Limited, Systems and Components are the reputed supplier of refrigeration packages to the pharma, chemical food sector for over 30 years. They have over 700 successful installations across the country, and this acquisition would help us to access this fast growing industry segment with our newer products. The net working capital of the Company was Rs. 325 crores, while this is higher than the net working capital we had as of 31st March, it also reflects the enhanced activity levels across businesses, mainly on account of inventory. The usual challenges in terms of inspection, site readiness, etc., continue to play predictable sales. But this is nothing which is different from our normal course of business.

CAPEX spending and CAPEX commitment in H1 was Rs.24 crores and Rs. 86 crore respectively. The free cash generation from the operations in H1 was Rs. 55 crores. Let's now look at the results, product group wise. The air compressor business had pockets of heightened activity particularly in the areas of construction and in the areas of pharma and metal. Consequently, portable compressors and the centrifugal compressors had a larger growth. This meant the new products like Kramis and Tezcatlipoca had enhanced traction.

Sales of reciprocating compressor packages to various applications like the air separation plants, carbon dioxide plant, LPG plant, etc., continue to do well. The refrigeration compressor business, this segment saw heightened activity particularly with major packages getting shipped to refinery, fertilizer, ammonia terminals, etc. There was also a strong demand for compressors going into cold chains, ice plants, dairy industry. Sale of Khione refrigeration packages too picked up. The challenges that we had on receiving compressors from Europe on time abated a bit, and this hopefully would give us strong performance in the next two quarters as well. With continuing strong order inflow in this segment, we expect this segment to continue to grow even during the next years.

Process gas compression systems, execution of packages for the oil and gas projects in India was to plan sale of CNG packages and Calana booster packages picked up, and we expect this to stay strong even for the rest of the year. We started shipping the biogas packages with a new Jarilo range of compressors with significant inquiry and order pipeline. We expect this space to materially contribute to the top line next year. Export sales are still coming in a trickle, and this is expected to remain muted even in the current year and maybe even in the first half of next year. Overall export for the year will be marginally over a Rs. 100 crore as compared to the Rs. 69 crores of the previous year.

Tie up with PDC Inc. USA, in offering comprehensive compressors for hydrogen and other difficult to handle gasses, has helped us to win package orders to special applications, we expect significant order intake in this space in the next couple of quarters. The O&M service business continues to grow with the install base growing, and this will continue to add to our regular business.

Outlook for H2 F25. The industrial activity India has slowed down a bit with three consecutive months of lower PMI. However, there are pockets of heightened activities, be it in natural gas space, food diary space, or on special projects. We continue to offer and finalize orders from these customers the trust to enhance manufacturing in India as a part of the government job creation initiatives will ensure that capital good sector continues to grow in an accelerated manner, even during the rest of the year.

At KPCL, the strong focus on in-house manufacturing, IP creation and localized supply chain will help us not only in achieving the quickest response to customer needs, as well as to be more competitive based on our cost position. This will help us both in our top line growth and in margin. With strong order book to back, we expect to deliver on the planned double-digit growth for the year and progress in our aspirational target of Rs. (+2000) crore for the next year.

Now, I am going to request Ramesh Birajdar our CFO to take us through the financial numbers. Ramesh, can you?

Ramesh Birajdar: Yes, thank you. Good evening everyone. I trust you had the opportunity to review the results, we promptly posted on the BSE and NSE website following the conclusion of the Board Meeting. Additionally, we have uploaded a "Presentation" on the Financial Results on our

Company's website. However, for the benefit of those who may not have had the chance to review the results, let me now provide a summary of our Q2 and H1 performance for FY25.

Sales of Q2 FY25 were higher compared to Q1 sales of the current year as well as Q2 sales of FY24. Sales at Rs.431 crore, it registered a growth of about 56% compared to Q1 of Rs.275 and compared to Q2, FY24 sales of Rs.282 crore. The H1 FY25 sales were higher at Rs.706 crore, compared to Rs.524 crores in H1 FY24. So, there was an increase by 35% in sales H1 year-on-year.

Other income for Q2 FY25 was Rs.6.17 crore which higher than Rs.4.15 crore in Q2 FY24 with other income for H1 FY25 remains same compared to H1 FY24. Material cost for Q2 FY25 was at 51% compared to 54.1 in the corresponding quarter of the previous year for H1 FY25, Material cost improved to 50.2% against 52.8% of H1 FY24, this is due to better product mix, package sales in Q2 FY25, The equal split between projects and the products, orders continue to remain, reduction in the material cost, we expect material cost to remain in this level.

Employee related expenses remained consistent in Q2 for both years. During the year, deserving employees were granted a general increments and promotions aligned with the prevailing industry trend. As a result, H1 cost for FY25 stands at Rs.87 crore compared to Rs.86 crore in the corresponding period of FY24.

In addition, ERE for Q2 FY24 that is last year, includes a onetime settlement cost impact of approximately Rs.4 crore paid to resolve a pending labor dispute related to termination of 117 employees. There is no interest cost relating to any borrowing either for Q2 or H1 as the Company is a debt-free Company.

I would like to state that, Company has net cash and cash equivalent position of Rs.252 crore as on 1st October 24. During H1 FY25 the Company incurred a CAPEX of approximately Rs.24 crores and paid a dividend of Rs.26 crores.

Depreciation is lower than the previous year due to discontinuation of RoadRailer business. Other expenses are mix of fixed and variable. There is no significant variation in the level of expenditure during the current quarter compared to the previous quarter, except the power and fuel cost impacting due to the fuel adjustment charged by the State Electricity Board and increasing operation at Nasik for forging and fabrication business.

EBITDA increased to 22.8% in Q2 which is up from 15.6% in Q1 FY25. For H1 FY25 EBITDA also rose to 20% compared to 12.7% in H1 FY24. The PBT of Rs.92 crore, that is 21% for Q2 FY25 showed improvement over Q2 FY24, PBT of Rs.27 crore, which is 9.4% and PBT of Rs.128 crore for H1 was higher than PBT of Rs.50 crore in H1 FY24 due to product mix and our continuous efforts to reduce cost of manufacturing.

Consequently, there was a significant increase in profit after tax in both Q2 as well as H1 FY25 with PAT rising from Rs.38 crores in H1 FY24 to Rs.94 crore in H1 FY25. The Company issued 68,200 equity shares in H1 under its Employee Stock Option Scheme (as against the previous year 40,200 equity shares), consequently paid-up share capital increased to Rs.12.97 crore, compared to Rs.12.95 crore as at the beginning of the year. Basic EPS improved to Rs.14.57 per share for H1 FY25 against Rs.5.89 per share in H1 FY24. With over 94% of revenues coming from the compression segment, it remains the only reportable segment. The segment profitability in Q2 improved to 25.59% compared to 19.9% of Q1 and similarly, segment profitability for H1 FY25 also improved to 23.1% as against 17.3% of H1 FY24.

Order booking during Q2 close to Rs.890 crores taking H1 order booking of Rs.1033 crore. As a result, the Company has an order book of over Rs.1780 crore as on 1st October '24, previous year Rs.1450 crore on 1st October '23. Capital employed in the compression segment rose by Rs.55 crore, reaching Rs.352 crore at the end of H1 FY25 compared to Rs.297 crore at the start of the year. This is increased given the expansion of the business activities in this segment. We are regrouped and rearranged the financials wherever it is necessary.

Before I conclude, I would like to extend my warm greetings to all participants for the upcoming Festive Season of Diwali. Now this forum is open for discussion with our esteemed investors. Over to Amit.

Moderator: Thank you. Ladies and gentlemen we will now be conducting a question-and-answer session. Our first question comes from the line of Mahesh Bendre from LIC Mutual Fund. Please go ahead.

Mahesh Bendre: Sir, in the first half, the performance has been very strong. So, when we look at the H2 how do you see, given the current order book and strong order intake, is the growth momentum will remain in this kind of growth rate for next two quarters?

K. Srinivasan: See, in the first six months, we have delivered a growth of about 35% over the previous year. But you must also understand H1 of last year was not a very great half year. The second half of last year was reasonably good. So, keeping that in mind, we still feel that we will deliver, as we promised +20% growth for the full year.

Mahesh Bendre: And sir in terms of order intake. Do you think what happened in last six months compared to that, do you think there will be some momentum in terms of booking order inflow?

K. Srinivasan: Like I said, there are several segments where there is definitely a slowdown. But having said it, we have not been so far impacted, because the business that we do in areas that are very specific to our products are still doing well. So, we don't expect any slowdown, per se. We will continue to grow as planted which is what we have said as our estimation for next year as well, we will continue to deliver double digit growth, strong double digit growth going forward.

Moderator: Thank you. The next question comes from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: So, I wanted to understand on the gross margin side. Gross margins have gone up by 300 basis points. So, what has led to this improvement, what kind of friction is because of the product mix, and how should we see the gross margins and EBITDA margins for next year, because of normalization happens, then EBITDA margins will once again go up. So, that was the first thing, the second thing on the booking side, order booking of 600 crores this quarter, very strong performance over there. So, I just wanted to understand what has driven this order booking growth. You mentioned Calana and biogas. If you can quantify, how much was bio gas contribution, and how much was the Calana your compressor contribution this quarter, and what was this number last quarter that we did?

K. Srinivasan: So, I will answer the second part first, and then request Ramesh to answer the first part in terms of margins. As far as the growth is concerned, our order booking has been pretty much secular, very much in the line with what we normally say of air compressors being about 20, refrigeration about 30, 35 and gas about 40. Except in this quarter and also a little bit in the last H1 itself, the growth in the refrigeration space has been far higher than what we normally get. We do expect that will moderate in the second half. So, that is only a few quarters number, but overall, it has been pretty much in-line with what we normally get. So, as far as the sales is concerned, margins I will request Ramesh to answer it.

Ramesh Birajdar: I hope, if you can remember that we are telling the people that we are very selective in choosing the orders and while selecting choosing the orders, we are specific to any projects or packages where we specifically insist for the higher margin. And during the Q2 we executed the projects which are having a higher margin, and that higher margin is impacted for the Q2 and we are reasonably okay with the subsequent quarter two, quarter three and quarter four, which will be normalized quarter for the quarter three and quarter four. This is the exceptional margin we got in few packages, and that is resulting into higher margin in this quarter.

K. Srinivasan: So, there are two, three components in it. Let me put it this way. There is a product mix, we are getting more equipment. So, that's 50:50, this say H1 so that is one advantage. Second is like Ramesh said, we had a series of good project orders with better margin that went through in this quarter. We expect the whole thing to normalize in the second half, it will not be 23 it will probably come back to a normal of 20ish. So, we don't want to pour cold water on it, but we are in the right direction. There is a help coming in that we do more manufacture in-house now. So, there are multiple things that help us to increase margin. We only want to caution that this is something that all came in well, it may not hold for the next two quarters, at least not at the same level.

Mihir Manohar: Sure. Sir, if you can just on the margin side, if you can throw some light as to new order booking which has happened?

K. Srinivasan: I don't want to get more granular in that in terms of order booking. We are booking a lot of good orders and with good margin. It is not in anybody's interest to tell exactly where we are booking our bigger orders. Like I said, it is broadly in line with our normal split between air, refrigeration and gas compressors, except that the refrigeration compressor order booking has been far more than the normal. We also expect this to normalize in the next two quarters.

Mihir Manohar: Sure, sir. And just lastly on the order booking and margin, I am not asking for a specific number, the Rs. 600 crores of order booking which has, the budgeted gross margins behind that, are they higher than what you used to have as a budgeted gross margin, let's say two quarters back or three quarters back?

K. Srinivasan: The margins, like we said there is a combination of many things. It's not just only the price at which we book, as we manufacture more in-house, as we take out cost, as we get a better cost in our purchasing, as we get our volumes in place, the margins tend to improve. So, the order booking is one part of it, which is really the market given price, the margins eventually is the difference between what we get as a price and what we build as a cost in all our manufacturing activity and our operations. So, there are two things playing here. We are working on one extensively, so that allows us even with a given price to make better margins.

Moderator: Thank you. The next question is from the line of Sanjay Sathpati from Ampersand. Please go ahead.

Sanjay Sathpati: You have more than enough for last year's slowdown, and back to that 20%. Sir the volumes is that can you given the kind of difference in growth is there any change happened between gas and non-gas that is the air now?

K. Srinivasan: So, Sanjay, I broadly understand what you are asking. I said in the two quarters, there has been a relatively different split than we traditionally have. There has been more refrigeration related compressors and compression packages, and slightly lower on the gas side. But it is a one or two quarter result we expect it to normalize going forward by and large, the split is not going to change. It will change within the range of that 5% that we talk about. Yes, there was some lesser packages on gas that went out, more packages on the refrigeration that went out, but that will all average out when you look at the full year.

Sanjay Sathpati: And the last thing that I just wanted to clarify on this, that we know that you have a much bigger market share in gas, refrigerator and that is where you have been become more aggressive with your product, so over a period of time, so your market mix is shifting towards refrigerator?

K. Srinivasan: You see the general story around gas what we call as a gas compressor business includes three buckets. There is a natural gas business, there it is largely the natural gas that is drilled out of India, which is roughly about 20, 23 billion cubic meters. Then there is an imported component which largely comes as LNG, which is roughly about 40 to 45 billion cubic meters. We see a role of more coming out of how LNG is going to be process, so that too is our gas business. So, we don't see any slowdown in that. There is a new thing that is coming up which is the biogas project. With our new Jarilo in place, we expect biogas to scale up, and that we know that is going to be an ongoing scale up that will happen, and we probably are the only people who can offer complete package end-to-end, right from the low pressure and the high pressure. Then the third area of growth is going to be hydrogen space and there too, we have packages there available, so we do not see this split between the three business is changing significantly going forward. There would be couple of quarters of up and down depending on large packages of one going and other not going but by and large, we are quite confident that we will stay with this split. This allows us to be more predictable, it allows us to sort of make our business plan better, and we will stay with this.

Sanjay Sathpati: And considering that order book now it so much higher, so your visibility has gone up setting aside the quarterly volatility?

K. Srinivasan: Your audio is almost as good as my visibility in any case, let me answer this. The visibility of having an order is one part, but the execution is largely dependent on these customers, clearing the drawings, clearing the engineering, having the site ready, giving our clearance for dispatch, etc. So, it's only half the story when you have the orders in place, at least it fixes our price and what we have to do. But the quarterly dispatches or the eventual sale has got multiple other variables, which is what I mentioned, the usual challenges of dispatches, site readiness, etc., would continue to be a part of a business challenge that we will handle.

Moderator: Thank you. The next question comes from the line of Mayank Chaturvedi from HSBC. Please go ahead.

Mayank Chaturvedi: Sir on the margin side of things, you have said one of the reasons is the in-house manufacturing that you are doing more and more so if you can just add a bit more color to it, as to what kind of increase have we seen on the in-house manufacturing, and are there more investments going in that and what activities would it be regarding, so that would be our first question.

K. Srinivasan: Okay. As far as manufacturing is concerned, what we have put out is that we are doing most of our fabrication, forging, etc., in-house. We are looking at doing several more things that we will share as we go forward and commission those operations in full scale. But that is one big dimension. It allows us two things, first is there is an element of cost saving, but more importantly, it allows us quicker execution of projects. If a project is put through in a shorter period, my other cost start coming down. So, that is another help that I get. So, there are two things that is happening out there, and I would like to put some numbers on it a little later when we come to a larger scale, but that is just a contributing thing, the two or three other reasons, as Ramesh explained, in getting better margins this quarter has been one, orders with greater margins, which was actually booked well. Second is we got a better product mix, we had products like I said, going more towards equipment and less towards projects. And the third one is also an important factor has been that, the overall volume growth has allowed us to be more efficient. This is again coming from internal manufacture as well as other process. To give you a number on our CAPEX, we are going to do about a Rs.100 crore in the next 12 months. That's the kind of CAPEX we are committing for building up capabilities for both in-house manufacturing and packaging.

Mayank Chaturvedi: Great sir. Just to end the loop on this. Are you also witnessing any realization uptake for the equipment's that you are selling?

Ramesh Birajdar: Can you repeat again please?

Mayank Chaturvedi: Are you witnessing any realization uptake on the equipment's that you are selling given that the market is strong in the pocket?

K. Srinivasan: Not really, we are not getting any better price from anything. Actually on the contrary, there is a pressure to put down prices. Like I said, the PMI has gone down three months in a row. Of course, this one right here is up, but which only means that there is more pressure on the purchases to put down prices, so prices are not going up.

Mayank Chaturvedi: Okay, great sir. And just one other question from my end, we have been highlighting that the CGD compressors have been slow moving, clients have been slower to take deliveries, and now there's an APM allocation, but that has come up. So, just wanted to get your thoughts on it, would you see a rather slower roll out going forward maybe on the mother compressors again, what are your thoughts?

K. Srinivasan: So, there are several people who had asked for this question as well. So, my first answer is, the natural gas production in India have been declining. And so this 20% reduction in allocation of natural gas to the CGDs is something that was in the offering we always expected this to happen. But if you look at the and see you must understand that the natural gas given to CGD, which accounts for roughly between 21 to 23 billion cubic meter is only a third of the total gas requirement of the country. And this has been, allocation is down by about 20% but this is supplemented by an 18% increase in the same period of LNG imports, and that is two thirds of the total gas consumption. So, effectively, if you take away 20% of one third and 18% of two thirds, there has actually been a growth in the actual gas that has been consumed in the country. We handle gas, it doesn't matter to us whether it came out of an LNG route or a natural gas drilled in India. So, the actual gas consumption in India is only gone up, and this doesn't include any other injection, be it biogas or hydrogen or whatever it is. So, there is a growth in consumption. The split between what is internally produced and what is imported is changing adversely as far as India is concerned. Consequently, the price of natural gas that will be available to the user would probably go up by between Rs.4 or Rs.5, as I am told, but that will not make an impact in the supply of compression packages, as far as we are concerned. And we are far more flexible than anybody else, so we will actually see a benefit in these kind of switches, because we are locally making, we are able to understand this technologies and modified things to suit whatever way the gas is generated. So, it's all an advantage for us as a Company, not for the user. Probably will end up paying a little more, but that's a part of the economic activities of our country.

Mayank Chaturvedi: No, that makes a lot of sense. Probably there will be a switch between the mix between mother compressors and booster compressors will be selling more of booster compressors now that the natural gas rollout will be declining. Is that understanding correct?

K. Srinivasan: Partly yes, but see even LNG can be gasified and put in the same pipeline and the same pipeline, it still have gas. It doesn't matter it didn't come from a natural well, but came out of an LNG from a port, and then it is gasified and put in the pipeline. So, in a way, the split between mother and daughter station is not going to be a big change because of this. The change is happening primarily because the CGDs are not investing on the pipeline fast enough. So, that is the reason why we have more of Calana sales and for us Calana is, though we get a volume, we are not very happy with it, because it doesn't make us money. For at least like what we would like to make.

Mayank Chaturvedi: As far as I understand, Calana is one third the price of our mother compressor right?

K. Srinivasan: That's right.

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

Kunal Sheth: My question on CBG has been answered. I just wanted to get some sense on CBG compressor, sir what would be the size of the market any sense, that you can give?

K. Srinivasan: The PNRGB report is available, which is said clearly, we will have 18,000 installations till 2027-28 now does probably go up to even 30, which means that many new stations have to come on an average about +2000 a year. This will continue for at least another four or five years. It would be a mix of mother and daughter stations, and that is not changed at all. That will remain.

Kunal Sheth: Sir, I was referring to the compressed bio gas compressor, CBG.

K. Srinivasan: Okay. On the CBG side, the announced installation is 5000 stations in the next five years. Again, like I said, 5000 will come next five years, may take longer than five years the initial set of large installations, with lot of fanfare have all not looked up to the technical expectation. Most of the challenges coming from the bio source and the generation of bio gas, the quantum are not in line. The compression is not an issue, compressions are working we are in a good wicket there, but so it's all going to take a little time. See, CBG unlike other things is dependent on bio source, and that's not a very stable thing. So, that is going to go through a challenge. So, it's not going to be very easy. We expect it to scale up next year, but this 5000 will definitely take more than the announced five year time.

Kunal Sheth: Sir any sense that, how much, what is the price of a compressor typically that would be required in a typical CBG plant?

K. Srinivasan: The CBG plant come from 5 TPD, 10 TPD, 25 tonnes per TPD stands per day. Our packages, we have anything starting from Rs.65 to 80 lakhs going up to Rs.2.5 crore. So, depends on what is the volume, what are the kind of bio source, how are they going to collect it, how are they going to clean it, is it is it going to be wet scrubbing, is it go through a pen cell so the whole lot of science behind it, and we have a solution for everything. As long as somebody can produce a biogas, we will compress it and give it to you.

Kunal Sheth: Sure sir. And sir last question, you did mention that the margins is a factor of product mix, and therefore we will cool off in the second half. But sir, any sense on what are we targeting for the full year in terms of margin, should it be much higher than last year, last year we ended up with about 15.3% EBITDA margin. Should this year be around 17, 18, or higher?

Ramesh Birajdar: You can expect a little bit of (+20%) on 15% in that range. But our segment margin, what we indicated earlier also, it is between the range of 19% to 20%, 21%.

Kunal Sheth : EBIT margin that you are talking about?

Ramesh Birajdar: Operating margin for the compression segment, which is in the range of 19% to 21%.

Kunal Sheth: This is EBITDA you are talking about sir?

Ramesh Birajdar: No operating.

K. Srinivasan: See for us EBITDA is the same, because it’s very small.

Kunal Sheth: Sir you are referring to EBIT margin right, that was 25?

Ramesh Birajdar:: EBIT and EBITDA is almost same for in our case, because it is no interest cost.

Kunal Sheth: Okay. So, this number we are targeting about 20-21 for the full year.

K. Srinivasan: Yes. So, like you said, there is a Company EBITDA margin, there is a segment margin. Generally, we said that the Company's margin will directionally go towards 18, we stay with it, the segment margin, we said it will be 20ish, it will probably be higher than that marginally around that. We want to be a little careful with margin till it sort of settles down. As you see that we had a good quarter and we want to ensure that we are able to hold on to some of this. We are also mindful of the slowing down of the activity in some segments, and we have to have the ability to flex prices and pick up orders if need.

Moderator: Thank you. The next question is from the line of Sahil Rohit Sanghvi from Monarch Network Capital. Please go ahead.

Sahil Rohit Sanghvi: My first question was just to understand, what kind of market share do we right now have in the biogas compressors. What kind of competition do we have, I understand you told me that, we have the largest range of compressors probably everything under the possible demand. So, how much of the demand that you told could be possibly falling under pneumatic, how much can we cater to?

K. Srinivasan: Okay, this is a question that is tough to answer in one session, but I will give you a rough answer. We have three segments; we have the air compressor business where our market share is as low as 5% to 7%. We have the refrigeration compressor business, where our market share in the ammonia reciprocating compressor business which is for cold chain and ice plants, is anywhere between 70% to 85%. We have the package business where we make large refrigeration package with hydrocarbon refrigerants where our market share could be (+80%) depends if you lose one package, then it is 80%. If we win everything, then we go to 100%. So, it's only about six to 12 packages a year. Then we have the gas compression business. There we have large packages, there again our market share would be above 50%, 55% but if you then look at the distribution business, which is really the mother compressors, daughter compressors, etc. Our market share would be about 35%, 40% so it's a duopoly, but we are about 40 each, 40, 45, each, and the rest is all with smaller companies. So, that's broadly our split, and this is only the market that we currently address. There is a huge market in each of them which are completely met by imports. And many of our launches are targeting to address this market which is currently served by imports. That's the way we are looking at it.

Sahil Rohit Sanghvi: I am sure, my question was more of to figure out the market share we are in the biogas compressor segment, would you have that number separately?

K. Srinivasan: Biogas is a very, very nascent industry, there would be no real installed numbers and available. So, there are a lot of people saying that one of you orders partly installed, partly not done, etc., so there is no market share per se at the moment.

Sahil Rohit Sanghvi: Okay. But the whole order can be summed up to, they can be summing up to roughly 50 billion, that is the opportunity, the market opportunity?

K. Srinivasan: The biogas business like I said, there is a government intention to have 5000 biogas compression stations, 5000 could be anywhere up to Rs.5000 crores, if you are going to put a crore for a station that could be the market in the next five to eight years.

Sahil Rohit Sanghvi: Got it sir. And secondly sir, in the last concall you said that there are some order booking expected for the hydrogen compressors used in electrolyzers. So, what kind of pick up have you seen on that front?

K. Srinivasan: We have not received, so far an order for a hydrogen compression package. We expect to finalize something during Q3.

Moderator: Thank you. The next question is from the line of Ankur Kumar from Alpha Capital. Please go ahead.

Ankur Kumar: Sir, in terms of execution, if I look at Q2 tends to be lower than Q3 and then Q4 is the best quarter, so given our strong 1,780 crore of order book, we expect similar trend as Q3 would be better than Q2 and then Q4 will be the best?

K. Srinivasan: I am going to be little careful because see we expect generally Q3 to be a shorter quarter, because we have these Diwali closures, holiday season, etc. But overall, generally we have a lot of dispatches which doesn't go in Q2 goes in Q3, etc. So, this time, I expect Q3 to be as good as Q2 around, that's my expectation. And Q4 as usual, will be a great quarter.

Ankur Kumar: Got it sir. So, in terms of the 1,780 crore, can we expect, like Rs.1000 crore in the second half?

K. Srinivasan: That is giving something which I don't know, we hope to have somewhere see we have potentially orders which are good, but generally so far, we have not done one half of Rs.1000 crores. So, let's see where we get to.

Ankur Kumar: Got it sir. And sir in terms of gross margins, it's like 1H is like around 50% while last year was around 46% odd. And our historically, also we have been like this only, 45%, 46% types of gross margins. So, given you talked about improved product mix, so in terms of this order book, what is expected gross margin, would you like to comment on that please?

Ramesh Birajdar: Considering the current level of the cost reduction what we are doing, expanding the activity in the Nasik plant, and we are expecting the orders, which is what we expect, the margins as per the expectations. But we see that similar type of margin will continue in the coming years also.

Ankur Kumar: Got it sir. So, in terms of our guidance was Rs.2,000 crore and then at that time 18% margin. So, even 1H has been such strong, can we expect this 18 to go to higher, to say 20 or we expect this to be at 18 only?

K. Srinivasan: So, we covered the margin part in the first, saying that the segment margin will go 20 to 21 that is the compression segment. The Company margin would be in the range 18 to 20, give it a one more quarter then we will be more clearer or it, but directionally we will get there.

Moderator: Thank you. The next question is from the line of Chandrakant Kanakia an Individual Investor. Please go ahead.

Chandrakant Kanakia: You have grown by 56% in sales, can you bring down in air compression, refrigeration and the gas part?

K. Srinivasan: We would not like to do the Chandrakant; we have done by and large good growth in all the three. I would like to give you an exact split between the three. Like I said for the first six months, the growth in the refrigeration part is being more than the normal thing. But other than that, see it would get more granular than that, then you actually are giving, let's say unnecessary focus on business targets for competition.

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

Shirom Kapur: I want to focus a little bit on your gas compressor business. So, just to understand, and you might have addressed this in previous quarters, but I am just looking for a bit more clarity. But you mentioned that your 50:50 sort of split between compressors, gas compressors and gas compression systems, if I am not mistaken, and you on this call mentioned that the segments that you cater to are the natural gas produced domestically, the LNG imports. You have got biogas, hydrogen. I just want to understand, do you also cater to, how much of your business caters to your typical upstream, midstream, downstream industries. And, in the refineries and oil drilling for various applications like gas injection systems and gas transportation, how much of your business is actually catered to that and what kind of opportunity, if you could quantify, how that opportunity is growing with all this kind of refinery and petrochemical CAPEX coming up in India over the next few years, how you are positioned to capture that opportunity?

K. Srinivasan: So, it's a good question that you ask and let me clarify, the gas business like we said is about 40% to 45% of our turnover, and in the gas business half of it comes from the compression systems which is the upstream, midstream and downstream. The other half comes from the gas distribution, which is really the mother station, daughter station, and the AMC, the space distribution and running these packages which is almost installed, there is over a 1000 of our packages across the country, and they have to be operated and maintained by us. So, that's about the other half. Now the package business of compression systems this is a long cycle thing we finalize orders, it takes about generally a year to finalize. It takes about a year to execute it. So, there is a fairly long visibility on it. We are doing a lot of work in this space, lot of orders are being finalized. Like I said, the market split I did answer in all the earlier questions, if you win all the package orders that year, then we will be about almost all the way about 80%, 85% otherwise we are about 45%, 50% of the total order that is put out. Why do we lose, why do we win? We win where it is just a package that is being ordered, many times we lose because the order is placed through an EPC contract. It goes into some of these smaller companies who pick the entire thing as an EPC contract, they in turn try and then get the compression packages. In this case, they have a choice to go and buy compression packages from let's say what we think are not the standard sources, they have some advantages in these things. Those are times when we lose these packages. Otherwise, when it is just a package, we tend to win them. So, the order, let's say the market share, like I said, it could be anywhere between 50% to 80% in this segment. Does it answer your question?

Shirom Kapur: Yes, and sir, you mentioned earlier that this market could be around, put out numbers between Rs.2000 to 4000 crores a year, is that specifically for the upstream, midstream and downstream?

K. Srinivasan: Market for gas systems can be anywhere in a good year when a lot of orders get finalized, could be a few Rs.1000 crores, Rs.1200 crores to Rs.2000 crores depends on what all would be a part of the package. If you take EPCs, it's even bigger. Our compression package alone could be anywhere in this range about Rs.2000 crore.

Shirom Kapur: Okay. No, that's very helpful and helps clear things up. And now focusing a little bit on the CNG packages. So, in your previous call you mentioned that the overall opportunity for setting up the CNG infrastructure till 2030 where about 12,000 stations are about to be set up and that could be, split two thirds in booster stations, one third in mother stations. You get sort of a rough estimate, and the total opportunity size could be Rs.18,000 crores if I am not mistaken, that's what the number that was thrown out. I just want to get some clarity on that. Because if we are talking about one, one and a half crores per mother station, and then about that math doesn't seem to add up of it coming up to Rs.18,000 crore opportunities. So, if you could clarify that and also, are these 12,000 additional stations from what we have now, or is it expected to be 12,000 total stations by the end of 2030?

K. Srinivasan: The total stations, so if you go to PNRGB website it's available in public domain, petroleum and natural gas regulatory board, they have said they have installed roughly about 6000 stations. They have said there will be another 12,000 stations coming up. So, the total becomes 18,000 stations, this 12,000 they said about a year and a half back, I believe at least about 1000 odd have since come up. Now generally they have not said which out of it will be mother stations, which out of it is booster, mother stations are approximately Rs.1.2 to 1.4 crores plus, plus. The daughter stations are about Rs.40 lakhs, it could be anywhere between Rs.35 to 45 lakhs. So, that is the kind of split that we have. Nobody says what exactly will be mother station, what exactly numbers will be on daughter station so we will have to put some estimates. This is the new installation. There is a running installation that also have to have an O&M coming on it. So, when you take these numbers, you will have to state that there is an ongoing operation and maintenance and cost that's coming on each of them. That's like an annuity business and then there are new stations. So, when you add up all that you will see that the numbers match.

Shirom Kapur: So, sir Rs.18,000 crores will be a fair estimate of the opportunity size available in this just to clarify?

K. Srinivasan: In the next five years plus, we don't know whether they will do it in five years, whether they will do it in eight years. I like I always keep saying in all my calls the numbers, we say that we will achieve, we will achieve. It's only the time scale that changes, it could be one or two years more than what is expected, or three years more.

Shirom Kapur: Sure, of course. And of this, you mentioned that at least in the mother station packages, Kirloskar Pneumatic has a higher market share, could be around 40% odd, but the daughter stations, there's about a higher competition. So, you are less likely to capture 40% of that market, right or is that?

K. Srinivasan: You are very much correct. Mother station is not a duo play, but it's at least a 40% for both of us. The daughter stations are a lot of small local players, and they come and go. So, we are also not keen to be a big player in that. Daughter station is an interim step as a technology, we are in it because the users want us to be, it is not a very lucrative business. It is a lot of service for a small value of business. So, we will be there, but we are not pushing to become 40% shareholder we don't want it.

Moderator: Thank you. The next question comes from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: So, I wanted to understand the biogas side, how important, or how commercially important biogas will be us for FY26, what would be your understanding around that?

K. Srinivasan: See, biogas is an interesting area. It is not something that is going to be earth shaking. It's not a big part of our business at the moment. It's one of the areas that can become interesting going forward. We expect to, if there is a Rs.5000 crore opportunity in three to five years, and we would like to be a dominant player in that.

Mihir Manohar: Sure. Is the movement happening enough so that some packages could come around next year?

K. Srinivasan: See, we will get orders, we are getting orders, we will get more orders. Like I said, the challenge is not so far in the compression side, the challenge is in getting the bio source on a stable way and to generate bio gas in a predictable stable way. That's a challenge all the installers are battling with. So, they have to first resolve that before it becomes an extremely viable business where more investments can come in.

Moderator: Thank you. The next question comes from the line of Aashna Manaktala from HDFC AMC. Please go ahead.

Aashna Manaktala: Just one question from my side. You mentioned you are seeing a bit of slowdown in certain sectors. So, what would that be, and I am assuming that is not PGD, because that slowdown is already being factored in right?

K. Srinivasan: See, the slowdown in manufacturing primarily comes of auto, auto components side. There are slowdown in other segments as well, but it doesn't affect us as much as it affects others, because our market share in the air compressor business which is where bulk of this action would be, is not a big one. So, for us, it is less important. Second area of slowdown has been in exports. Several geographies have been affected again, export is not a big part of our business consequently that slowdown doesn't impact us. Yes, we had plugged in a lot of opportunities for growth in West Asia, North Africa, etc., related to the oil and gas sector, clearly there's a slowdown in that sector as well. No big orders are getting finalized as fast as we expect, and that slowdown is also been factored in. We have been saying that look, these are all areas which are interesting, big but is definitely slowing down, and we will have to wait to en-cash on these orders.

Aashna Manaktala: Understood, that helps. And you also mentioned that you are also launching some new products which are targeting import so what product segments would that be?

K. Srinivasan: This is across the board, there are sound like Tezcatlipoca is a centrifugal compressor which comes under the air compressor business. It goes after imports of compressors in this area, if you look at the Khione and there are several around it is coming up, these are all compressors which target imports in the refrigeration space. The Jarilo is a compressor that targets imports that would otherwise be required for the biogas and other spaces. So, there are clear products which have been identified and put in place targeting imports. Aria is an air compressor which targets cheap, low and Chinese imports. So, there are quite a few products. A lot of our products that have been launched are import substitutes.

Moderator: Thank you. The next question is from the line of Rohit from Progressive Shares. Please go ahead.

Rohit: I like the way you spell out KPCL in the annual report as knowledge management people process customer care and lasting partnerships. Sir, I have two questions, the first one being you did mention about the IPs been at 20 this quarter, and last quarter it was around 15. So, if you can just take us through that, which sub segment are you focusing on, and how quickly or how slow will these products be launched in the market?

K. Srinivasan: Yes, so just to clarify the H1 IPs are about 20, which means this quarter we actually had only about five odd filings compared to the first quarter. So, overall, we said 20 we will hopefully do about let me see at least 40, IPs are something that only can be reported after it happens. Okay, so when we look at IPs, we look at three things as IPs, it need not be only a product patent. It could be a design registration, it could be a special trademark registration, etc. We also measure which is not really in public domain, we also measure the number of peer as approved publications in international magazines of repute, etc. So, we have a lot of criteria that we have set up it's there in our presentations you can take a look at it. We talk in terms of how we build a chain of processes which will develop competitiveness, both in terms of products, process and our offerings to the customer and market. Quite a few activities go around it, around this is what we put out as a measure we put out the IPs that have been filed during a quarter or a half year.

Rohit: Okay. So, out of these, approximately how many new products can come out from our umbrella?

K. Srinivasan: Okay. So, the products have, let's say whatever we have announced in public domain Tezcatlipoca is new, I am talking of what is new in the terms of what has been launched and scaled up in the last two to three years. Calana, Aria, Jarilo, Khione, Kramis. So, there are quite a few of them that have been launched and have been scaling up. So, these are the ones all come out of internal development our own IP.

Rohit: True. But these are, are you looking at catalog products from this basket or is it going to be something out of the box kind of innovative development from KPCL?

K. Srinivasan: Okay. So, here you will have to look at things. We will the last breakthrough in compressor was the screw compressor, it was done 30 years back. Most of what IPs we create would all be improvements, extensions, not a fundamental change. We are not coming from the science side of development. So, if you look at the R&D, the R is still a very small part, D is the bigger part. So, these are all improvements, developments and uniqueness of the existing general products, but are better superior than them in multiple ways. It could either be a frugal engineering which allows us a cost competitiveness, it will either be a performance related thing which allows it to perform 10% to 15% better, or it left several unique features which allow us to do one or two more things compared to anybody else, etc. They are not something that, let's say it is a completely different kind of a product itself.

Rohit: Okay. So, my second and last question is related to SCIL, Systems and Components India Private Limited. I know you are doing some due diligence and probably working on some closing adjustments over there, but if you can just take us through the synergies, or maybe the diversification, or soft diversification in industrial conservations and what exactly.

K. Srinivasan: I will answer that. Systems and Components India Private Limited is a Company that we have just completed a shareholders agreement today and announced the actual share transfer will happen as soon as the shares are dematted, etc., which is a part of the new requirement, even for private companies, that transfers can happen only after the shares are in the demat format. So, that's being done. So, we will run this business as an independent subsidiary, the reason it will give three advantages, one for systems and components it will allow better management, and obviously we will try and bring in new possibilities for the Company. For KPCL, it allows us one access to a very fast growing segment. See, like we said in the refrigeration space, we largely cater to the hydrocarbon packages, or we go to the reciprocating packages for the cold chains, ice plants, etc. This allows us to access the pharma, chemical and dairy industry in a more significant manner. We also have the possibility to use through systems and components some of the compressors that we are designing and developing new and these would also can be packaged and sold through their network. So, this is an advantage that we see. It's a very small Company as we speak, we will have to build it up and use its cost base to scale up.

Rohit: Sir would you like to share anything on the land that is available at Patgaon, or maybe scope for Greenfield, or maybe Brownfield expansion that can happen?

K. Srinivasan: We have significant land with KPCL at Nasik, Saswad and other places. So, land is not the reason for acquiring Systems and Components. So, they will have the land for their own growth, and that will be there.

Rohit: So, would you be focusing on improving the margin profiles which SCIPL currently has, or maybe on this saving cost, or maybe the execution speed up?

K. Srinivasan: It's a very small Company like I said, first would be to grow the Company in terms of scale and size, everything else will come along with it.

Moderator: Thank you. Ladies and gentlemen, that was the last question and it concludes the question-and-answer session. I now hand the conference over to the management for closing comments.

K. Srinivasan: So, once again, thank you all. Thanks for taking time to listen to our call and as we close for a week before Diwali, I wish you all well, may the year bring us all far more predictability. I know it's a Bani world, but let's have far more predictability, far more progress and success as we go forward. 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, you may now disconnect your lines.