"Kirloskar Pneumatic Company Limited
Q4 FY 22 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 Q4 FY 22 earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the Conference Call, please signal an operator by pressing "*" then "0" on your 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: Thank you, Rutuja. Good afternoon everyone, welcome to the Q4 FY 22 post earnings Conference Call of Kirloskar Pneumatic Company Limited. We have with us from the management, Mr. K Srinivasan, Managing Director of the company and Mr. Suhas Kolhatkar, CFO of the Company. I'll hand over the call to Mr. K Srinivasan for the opening remarks post which we can open the floor for the Q&A session, over to you, sir.

K Srinivasan: Good evening to all of you. Before we start the conference, I request our Company Secretary, Mr. Jitendra Shah to read out the disclaimer, please.

Jitendra Shah: Good afternoon 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's judgements and future expectations, a number of factors could cause actual developments and results to defer 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 judgements in assessing various risk associated with the Company and also the effectiveness of the measures, which taken by the Company in tackling them as indicated during the discussions. Thank you.

K Srinivasan: Once again, good evening to all of you. Let me start by wishing you all good health and happy earning season. FY 22 was an eventful year to us in many ways. The year started with the second wave of COVID pandemic and ended with the war in Europe, bringing in new challenges as well as opportunities. As we go into FY 23, we have a very high level of inflation across the world, nearly all commodity prices are on fire and we are also seeing all round opportunities, particularly with the reconstruction coming up as we go forward. Sales for the full year were at Rs. 1,021 Crores as compared to Rs. 823 Crores of the previous year, a growth of 24%. This was largely driven by volume growth in Air Compressors and CNG Compressors, so in a sense, product mix was a big driver. The profit before tax grew from Rs. 83 Crores to Rs. 114 Crores, a growth of 36%. All our businesses, air, refrigeration and gas compressors and compression systems did well. We had all round growth. For the first time, we won over Rs. 100 Crores of orders in exports. We have executed only a small part of it, so a significant part of it will be exported during the next year. This boards very well for addressing the newer export markets as we go forward. The overall order bank of over Rs. 1,200 Crores and a significantly higher opening inventory should allow us to grow our sales further. The inquiry and order inflow remains strong right across various products and industry. We also expect to benefit from the new product launches stated for Q1 FY 23. We have spent on capex Rs. 92 Crores in FY 22 and are planning to spend around Rs. 40 to 50 Crores during FY 23 to build further capability and to enhance capacities for future growth.

In terms of working capital management, our receivables remain at about the last year's level in spite of the higher sales, but we do have a larger percentage of inventory and this should help us to execute our export orders, in particular, in Q1. The overall cash generation from operation was close to Rs. 110 Crores, which shows the quality of our earnings. Let's now look at the results from various product lines.

The Air Compressor business continued to scale up on the back of our screw compressor production. These designed and build in India screws continue to win customers and market share, based on strong performance and reliability. We continue to work with City University, London to develop further profiles. The new K series of profile, which is the Kirloskar series of profile would be perfected and launched during the year and this would be pushing the boundaries of efficiencies even further.

We have scaled up on delivering Centrifugal Compressors with our own in-house designed and built gear boxes and impellers and these are mainly being given for air separation plants and for metal production. The demand continues to outstrip production in this space and we are making efforts to scale up. We continue to lead in the Reciprocating Compressor business. Special compressor packages were delivered during the year. One of the notable ones was for methanol production from low grade coal. The other important areas where we have developed and delivered Reciprocating Compressor packages are for LPG, CO2 sequestration, methyl chloride and for several other new applications. We continue to be the preferred choice for oxygen plants in this space across India. Refrigeration Compressor division, this business had a strong growth in sales coming from the revival of sales to the cold chain and ice plants. The refrigeration systems for the petrochemical and hydrocarbon industries too scaled up with the pickup in the oil and gas industries globally.

The new KHIONE series of screw compressors, for the refrigeration is being launched in Q1. This has been technically tested and approved. We expect to meet the requirements of pharma, food processing and dairy industry with this new range of screw compressors. Process Gas Compression Systems, we had record sales of CNG packages to the gas distribution companies. We also continue to provide O&M services for this sector across 15 states in India. There has been a significant delay in finalizing several large gas system package orders, some of them were finalized in the second half and they will come up for execution in H1. In Q1, we will launch our hydraulic booster compressors and this will meet the growing demand for off gas network stations. These are not connected to the gas pipeline, so they're off gas stations and this demand is picking up and our hydro booster compressors will lead this market.

The outlook for FY 22-23, the war in Europe has brought both concerns and opportunities. The immediate challenge is the galloping cost of most commodities and particularly freight. The supply chain challenge continues with key plants in China, under lockdown and there is still a piling up of cargo on various ports, consequently, availability of containers and shipping is a challenge. In the medium to long term basis, this will however open up newer markets and also there will be a higher demand for our products, particularly in Europe. We have enhanced our inventory levels and have orders in hand to start the year on a good note with a couple of new product launches in Q1, we expect to deliver double digit growth in both the top and bottom line going forward. We will update on how this stands out after every quarter and we will see how things can move towards our aspirational target of being a Rs. 2,000 Crores plus Company in the next 2 to 3 years. I now request Mr. Suhas Kolhatkar, CFO to take it forward from here. Thank you.

Suhas Kolhatkar: Good evening, ladies and gentlemen. I hope you were able to go through the results which we posted on the BSE website yesterday after the conclusion of the Board Meeting. We have also uploaded the presentation on annual results on our Company's website, I request you to have a look at it as well. However, for the benefit of those who probably did not get a chance to have a look at those results, let me summarize Q4 and annual financial performance of our Company for FY 22. Before I touch upon the various elements of the financial performance, let me first broadly talk about a couple of highlights of the year. The company during the year achieved a few landmarks: Sales crossed Rs. 1,000 Crores mark for the first time and that is what we believe is the first landmark in our aspirational target of becoming Rs. 2,000 Crores Company. PBT also crossed Rs. 100 Crores mark and the opening order board has gone beyond Rs. 1,200 Crores, it's around Rs. 1,250 Crores as on 1st April, 2022. I'll now turn to the business results for Q4 and the year ended on 31st March, 2022. Mr. Srinivasan did mention our turnover has reached to a level of Rs. 1,021 Crores from Rs. 823 Crores, showing 24% growth. Sales for the quarter as usual were highest amongst all the quarters and stood at Rs.398 Crores, too short compared to corresponding quarter of the previous year, where we executed one of the project orders. This was mainly on account of non-clearance through one of our export orders by the customers, which we expect to get it delivered during this month. With the other income at around Rs. 12 Crores as compared to Rs. 10 Crores of the previous year, total income for the year stood at Rs. 1,033 Crores as against Rs. 833 Crores of the previous year, a clear rise of Rs. 200 Crores.

During our last call, we had indicated about the rising input cost as commodity prices had started moving upwards. As a result, material cost in Q4 was close to 56%, higher by about 2% over Q3. Annual material cost, however, was close to a level of the previous year of about 54.7%. In Q4, the employee related expenses were marginally higher than the Q3. The annual ERE was however, higher at Rs. 129 Crores compared to Rs. 113 Crores as liberal increments and promotions were given to all our deserving employees who stood by difficult periods of pandemic during the last fiscal. With sales growing in the current year, the percentage of ERE to sales declined by about half a percent. We were at 12.5% of the sales as against 13% in the previous year. As indicated in the last call, the Company foreclosed its loan exposure and the entire Rs. 40 Crores were repaid in full. Interest cost, therefore is only in respect of three quarters in the current fiscal. The company as such therefore, has no loans, whether term loan or working capital loans on its books of accounts and is a debt free Company.

At this juncture, I would also like to state that the Company has a net cash position of about Rs. 162 Crores as on 31st March, 2022 after paying a final dividend of the last year and the interim dividend declared during the year, apart from repayment of loan of Rs. 40 Crores. I'm sure you must have gone through the cash flow statements and you would've observed that the cash generated from the operations was close to about Rs. 110 Crores. Depreciation is in line with the previous year, in fact, a little lower than the previous year, and is in line with the additions to assets. The company invested close to Rs. 92 Crores in the capex including a land to meet our future growth requirements.

Our expenses are a mix of fixed and variable costs and are at 18.8% of the sales compared to 17.8% of the previous year, a percentage growth also corresponds to the top line growth and the composition of the top line. There is no significant variation in the level of expenditure and cost controls exercised during the last financial year continue in the current year also. EBITDA in the current year is marginally lower at 14.7% compared to 14.8%. It's not so significant, 0.1% low in the EBITDA level. This was mainly on account of drop in margins attributable to rise in material costs by a similar percentage, 54.7% and 54.8% if you compare, however, the lower depreciation and more or less the same interest level. PBT for the fourth quarter was higher at 18.2% compared to Q4 of previous year at 15.4%, despite marginally lower sales as the material cost percentage was lower in the current year as compared to that of previous year. For the whole year, PBT improved to 11% compared to 10.1% in the previous year. PBT of Rs. 114 Crores shows a 36% growth over the last year's PBT of Rs. 84 Crores. PAT rose to Rs. 85 Crores and stood at 8.2% compared to Rs. 64 Crores, which had presented 7.7% in the previous year.

The Company issued about 1,78,000 Equity Shares during the current year to its eligible employees under the Employee Stock Option Program. Consequently, the paid-up share capital increased to Rs. 12.89 Crores compared to Rs. 12.85 Crores. Basic EPS improved to Rs. 13.9 per share in the current year compared to Rs. 9.94 in the previous year, so Rs. 3.25 increase in EPS over Rs. 2 fully paid-up share. The Board has recommended a final dividend of 120% taking the total dividend for the year to 200% as against 175%.

With about 95% of the revenue coming from the compression segment, it remains the only reportable segment. Previous year's figures have been regrouped wherever necessary to correspond to this reporting. The segment earned a profit of 18.7% in the current year compared to 17.8% in the previous year, so the segment profitability has also improved by almost a percentage point. Order booking during the year was over Rs. 1,400 Crores. As a result company has an order book of over Rs. 1,250 Crores as on 31st March, 2022 compared to Rs. 920 Crores in the previous year. So there is a significant rise in the order board as well. The capital employed in the compression segment increased by about Rs. 50 Crores, particularly in the form of inventory, which was built to execute the export order and a strong CNG order board that we carry.

The net working capital as a percentage of sales actually came down close to 18% of sales compared to 21% of the previous year. Receivables are down to 106 days as compared to 136 days in the previous year and suppliers outstanding has also come down to 96 days compared to 102 days of the previous year. A significant working capital was benefited by the advances from customers that we collected, which improved to Rs. 98 Crores compared to Rs. 40 Crores in the previous year. Lastly, during the year about 60% of business was from projects and balance from the products and this has been the proportion that has been there for quite some time in the past now. Thank you so much, this is all what I would like to add on the financial performance of the Company and we can now take questions, if any on financial results for the FY 22. Over to you, moderator.

Moderator: Thank you very much. So we now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touch tone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Hi, sir thanks for taking my question. My first question is in respect of the breakup of revenue between Gas Compressor, Air Compressor and Refrigeration Compressor for the year, if you can give that breakup.

K Srinivasan: Yes, Ravi, good evening. The Air Compressor is approximately 25%, Refrigeration Compressor is about 30% to 35% and Gas Compressor is about 40% to 45%. This ratio remains; there has been a marginal growth in the Air Compressor business nearing towards 25%, beyond that it was about the same as last year.

Ravi Swaminathan: Okay. So all three segments have kind of grown?

K Srinivasan: All have grown. There has been a marginally higher growth in the Air Compressor compared to the other two, but all have grown about the same.

Ravi Swaminathan: What kind of volume growth you would've seen compared to last year for the entire Company and the individual segment level, because I mean there might have been quite a portion of price increase that would've been there.

K Srinivasan: No, like we mentioned in the beginning, a significant part of it is from volume growth. We were approximately about 2,200-2,300 compressors, we have gone above 3,130 compressors. So there has been a significant growth in volume.

Ravi Swaminathan: Got it sir and from the next 2 to 3 years kind of growth, would we be able to maintain the same kind growth that we saw this year vis-à-vis last year in terms of volumes, are we confident with respect to that?

K Srinivasan: In terms of capacities, we have created to meet this kind of a growth rate going forward. The order flow indicates that we have still a very strong reason to believe that we can do as well as we did the last year.

Ravi Swaminathan: Got it, sir, thanks a lot.

K Srinivasan: Thank you.

Moderator: Thank you. The next question is from the line of Digant Haria from GreenEdge Wealth, please go ahead.

Digant Haria: Yes, firstly, sir you gave a very good encouraging guidance, you know, especially in this environment, so just wanted to check that, to meet that kind of guidance are we stocked up on inventory or does chip shortage or any of these supply chain bottlenecks could become real risk for us or are we already trying to mitigate that?

K Srinivasan: All of us are impacted deeply by the supply chain challenges as well as the very high level of inflation in the commodity prices. We are relatively better off compared to others in this space simply because our entire value chain exists within our control. Most of the other larger competitors that we talk of have parts of their value chain 7,000 kilometers away from India. Consequently, the challenges that they face is little more compared to what we face. So to that extent we expect to benefit in terms of value chain advantage.

Digant Haria: Secondly you mentioned that the export opportunity may open up because of the war and the after effects of the war. So, if export opportunity opens up in Europe in a big way, what preparations are we doing to tap it because I think this is the first time you reached more than Rs. 100 Crores in export orders, right?

K Srinivasan: The current export is predominantly, a very large part of it is from project exports to the Middle East but the opportunities that are likely to come up in Europe would probably be met by European companies as a first choice, because I think there would be an element of funding tie-ups and consequently, they would either be met by American or European companies and we expect to lock in into the value chain by delivering to these companies parts of this supply. So we would have to supply elements, components, air ends, etc. to this value chain that is what we are targeting.

Digant Haria: My second question was on the CNG part that, you know, we've seen massive increase in the gas price and, you know, there is a discussion that the CGD companies will have to opt for more and more imported gas, which is a very high priced gas and that can hit their profit margins severely, so have you seen any slowdown, like you just said that we had really good execution on the CNG compressor side, but any indications of this, slowing down from the side of the CGD companies?

K Srinivasan: We had a 40% plus growth in terms of number of installations last year compared to the previous year in CNG, we expect this strength to continue based on the order inflow that we have. There is a price escalation that you mentioned, but that is also true with the other competing energy basket, be it oil or gas and other things. India historically always imported over 55% of its gas requirement and that ratio is not going to change. It’ll only grow if the gas utilization goes up. The newer things that seem to be playing up, but still not to scale is biogas getting fed into the same pipeline using the SATAT scheme which the government has announced. As these plants scale up we'll have further opportunities for biogas compressors, which is also what we had launched and installed during the last year.

Digant Haria: Thank you so much and all the best.

K Srinivasan: Thank you.

Moderator: Thank you. The next question is from the line of Nilesh Jethani from BOI Mutual Fund, please go ahead.

Nilesh Jethani: Hi, thanks for the opportunity and congrats on a great set of numbers. So my first question was on our target umbrella, target of around Rs. 2,000 Crores of top line in next 2 to 3 years. So, I wanted to understand, one is the air compressor piece where we will drive to increase market share, so broadly what segments will contribute to a higher growth to that number in next 2 to 3 years.

K Srinivasan: Thanks for the question, like we’ve been saying this ratio between Air Compressors, Refrigeration Compressors and Gas System would by and large for KPCL continue to be in the same ratio of about 25%, 30% to 35% and 40% to 45%. We don't see this changing even when we come to about Rs. 2,000 Crores, this is broadly our expectation based on what is visible to us and the kind of product that we seek to launch in all these three phases. As far as the Air Compressor business itself is concerned we will take market share in India, but also, like I mentioned, we also see opportunities for participating in the value chain of this compressor business across Europe and US as well, going forward.

Nilesh Jethani: On this target itself on the Gas Compressor first, I just wanted to understand what would be the average cost of compressor and what is the market opportunity post this 11th round also?

K Srinivasan: I request Suhas to handle this because he’s got all these numbers on his fingertips, just a minute.

Suhas Kolhatkar: Post 11th round, about 60 GAs, cover about 6,000 compressors. So balance compressors from 9th and 10th round about 8,000 compressors and 11th round of 6,000 compressors this is going to be close to about 14,000 compressors or gas stations requirement, I would say. Now the breakup of these gas stations are resulting into a demand for the main or mother station, which we produce as of now and the booster stations, which we intend to introduce in the first quarter of the current fiscal is more or less, 50% - 50% or 40% - 60%, more in case of 11th round in favor of the hydraulic booster station, because these areas are covered where the GAIL pipeline has not reached. I won't be able to share the cost with you, but at the market price of the compressors, we believe that the primary market, which is of the mother stations is close to about Rs.7,800 Crores and the booster station market is about Rs.3,800 Crores so, ballpark it is close to about Rs. 12,000 to 13,000 Crores and we expect on an average Rs. 900 Crores business per year to get transacted between the booster stations and the mother stations. Mother stations are the compressors which we presently supply, the booster station compressors are something that we will start supplying in the current financial year.

Nilesh Jethani: Got it, so broadly out of Rs. 2,900 to 2,950 Crores, say would be coming from the gas compressors and now in the air compressor, I believe the opportunity earlier on the domestic side was given at Rs. 3,000 to 5,000 Crores, but now with this Europe and the other export opportunity, so how big is the air compressor opportunity for us and what numbers we can expect in this air compressor piece considering exports is now expected to open up for us?

K Srinivasan: The air compressor business is pretty large. It's of the order of something about $20 billion, it's a huge industry. So the Indian market itself, when we say Rs. 3,000 to 5,000 Crores, there is an element of export, there is an element of import. So that's why it puts such a wide range in this. So the opportunity is humongous, so we are very small, so it doesn't make a difference whether it's 1% or 2%. So $20 billion plus is a market opportunity in air compressors.

Nilesh Jethani: And lastly on this Ref compressor price, post this installation of a lot of fulfillment center, etc. so Ref compressors demand is expected to improve, so are we seeing any demand picking up from that side on the Ref compressor side?

K Srinivasan: Like we said, this year has been record sale of Refrigeration Compressors to the cold chains and ice plants, etc. in India. This is predominantly India, Southeast Asia market, the Southeast Asia market has been relatively muted during the year completed. We hope to see this picking up with our existing ammonia compressors. The new KHIONE series of screw compressors will hit the market in Q1 and that'll open up a newer area, which is really the food processing plants, the pharma industries, etc. which do not use ammonia as a refrigerant and this screw compressors will address that market. Currently, this is being met by imports from Japan and Europe; we expect to address this market with our compressors.

Nilesh Jethani: And lastly, on the margin side, considering the commodity price escalation, the recent order wins we have, which is around Rs. 1,250 Crores, what are the margin expectations? Have we taken the required price hikes over there?

Suhas Kolhatkar: The EBITDA margins of the Company, we are trying to ensure that they improve year-on-year. We have seen that the margins for the compression business are in the range of 17% to 18%. Last year, we had a margin of 17.9%. This year we had a margin of 18.7% and despite the pressures on the price with the good product mix whether it's the CNG compressor or the Air compressor or the Refrigeration compressor we are trying to ensure that the margins for the company are protected. At company level, we almost have 55% material costs which means that the contribution coming towards the fixed cost is fairly protected. And that's what we will ensure in the current year also. You would recall that we had close to Rs. 900 Crores of the order board in the last year which has now gone to Rs. 1,250 Crores and we should be able to address this with the similar margins.

Nilesh Jethani: Got it sir. That was really helpful, sir. And thank you so much by addressing all the questions.

K Srinivasan: Thank you so much.

Moderator: Thank you. The next question is from the line of Arjun Pathak from Central Advisors LLP. Please go ahead.

Arjun Pathak: Good afternoon, sir. Thank you for the opportunity and congratulations for the huge set of numbers. My first question would be with our current capacity, what's the next revenue we can generate?

K Srinivasan: We have answered this last year and I would repeat a similar answer for this as well. If you look at the numbers in the last quarter, we did roughly about Rs.400 Crores. So, assuming we can do Rs. 400 Crores of quarter, the existing capacities would give us at least about Rs. 1,500 Crores. With some balancing investments which we continue to do year-on-year, we will require another investment of about Rs. 200 Crores to do this Rs.2,000 Crores that we are looking at. So that's if your question is saying what more investments you would require to get to Rs. 2000 Crores, about Rs. 200 Crores would be enough for us.

Arjun Pathak: Okay. And on the raw material side, what's the major commodities that gets consuming number raw material basket? Major raw material, like Iron & steel, which one?

K Srinivasan: Yes. If you look at by the weight of it, the large raw materials, we consume cast iron, which is our own casting and for the cast iron plant, we buy pig iron and some high-quality scrap which comes from all the stampings, etc. Then of course we have all the exotic materials which is consumed not directly but as a part of our motors which is really copper, then the bearing parts, etc. So, if you are trying to get some kind of an indicator of which commodity would influence the cost then, I would take copper and steel as two commodities that will influence the cost.

Arjun Pathak: I was going through our annual report on the plant and property note. I found that there is a note saying leasing of compressor and vehicles, so can you tell what is leasing of compressor and the vehicle that is shown over there?

Suhas Kolhatkar: We have a contract to supply the gas which was entered into maybe three years ago. We have supplied this compressor instead of selling this compressor package, we have supplied it under a lease arrangement. So, this is where the lease rentals also come to us to the tune of about Rs. 28-29 Crores.

Arjun Pathak: Okay sir. Got it.

K Srinivasan: Well, I will explain this as a business model. There are places where the availability of gas is not forever. So there the gas company would decide to take the pumping station on lease. So, this tender that we won three years back, we installed a set of compressors in an area where we pumped the gas and we told them for the gas that we pumped. So, we get paid per month.

Arjun Pathak: Okay, sir. Got it.

K Srinivasan: And we have had renewal last year which was renewed in December last year. It'll run for another year and then it can get renewed depending on the availability of gas. We expect that it'll run for some more years.

Arjun Pathak: Okay sir. Got it. My last question, in last conference call, you talk about that you were selling as per contractual projects and there are some products and in contractual projects certain prices are fixed, right. So, I want to know, are there any clauses including in there regarding to any raw material price hikes?

K Srinivasan: Yes. At the moment, all our orders are fixed price orders. We are putting in the last couple of months saying that if there is an escalation in key inputs beyond a particular percentage, we would need to come back with a revised price. But these are government tenders, so, this is still under discussion. So, at the moment, all orders are on fixed price orders.

Arjun Pathak: Thank you so much.

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

Kunal Sheth: Yes. Hi, thank you for the opportunity, sir. My first question is pertaining to the order in-flow that were last year through. Most of that would've been from oxygen plant compressor?

K Srinivasan: See the oxygen business is less than Rs. 100 Crores, not a big business for us. So, it was a very seasonal thing. And it was see, there are two parts, there is a traditional business we do on the air separation plants that was also used for oxygen, but that continues, that will go into our separation plants of, let's say Linde or Inox and others. And they would use these plants to produce nitrogen, to produce oxygen and so many other things. And that continues. That's not going away. What was unique and one off is the oxygen PSAs plants that were put up under the PM care. And that was fairly small. It was over a very short period and it's less than Rs. 100 Crores.

Kunal Sheth: Okay.

K Srinivasan: Significantly lower than that.

Kunal Sheth: Sure. Sir, second question is pertaining to exports. You mentioned that this year we have first time crossed Rs. 100 Crores. So, in our Rs.2,000 Crores turnover target, have we set out any target for exports or we wish to increase it but there are no specific targets that we have set for ourselves?

K Srinivasan: No, we have taken an objective that exports and international revenue should be 25% of our top line sales for which we are working. And we hope to be there even before we get to the Rs. 2,000 Crores mark.

Kunal Sheth: Okay, sure.

Suhas Kolhatkar : Kunal just a clarification on the exports which you talked about Rs. 100 Crores, it is order booking, we are not exhibited the entire Rs.100 Crores. Majority of the portion will come during the current financial year FY 23.

Kunal Sheth: And sir thirdly, on margin. So, we ended up with about 13 and a half kind of a margin for the full year, LC moved towards Rs. 2,000 Crores turnover. Is it right to assume that margin trajectory can improve from here, both from operating leverage and better mix?

Suhas Kolhatkar: I think you can definitely count in that manner because the general rule of economics is, as the volumes improve, the margins also improve. So, we should be able to gain something out of the economies of scale plus the overheads get spread over the larger contribution coming from the higher volume. So, at EBITDA level, we should be able to see, as we grow in the top line, a better margin.

Kunal Sheth: Sure. But also sir, new launches are also, you know, profitability is in line with the traditional products is what also I was trying to understand.

K Srinivasan: Yes, generally. But we should also give it some time. For example, if you look at the hydraulic booster that is going to come into the market, it is in the gas space, we didn't want to enter this market for some time because the unit price of this is less than half of a CNG station. So, the margin initially is going to be very tight before we get scale and efficiency. So, give it some time, my only request on the margin for all our analysts and listeners is that don't judge this on a quarterly basis, because we would have this challenge of quarter-by-quarter some variations that come in depending on the products mix and the packages that go through but on a what Suhas said is like on an annual basis, we are very, very consistent. We have been delivering year-on-year margins which are growing and consistent. So that is what I would leave as a word of caution and judging by quarter.

Kunal Sheth: Sure. And sir this hydraulic booster that we spoke about how large is that market? I mean, is it a very meaningful market?

K Srinivasan: Suhas gave the number, Rs 3,800 Crores.

Suhas Kolhatkar : Rs. 3,800 Crores will be delivered in next 8 – 9 years.

Kunal Sheth: Sir, we mentioned that about Rs. 900 Crores of business can come from this opportunity. So, that was the annual booking opportunity for the industry or that you were talking about KPN?

Suhas Kolhatkar: No, it is industry business. And that's because the PNGRB has set the requirement for all this successful bidders that they must install these gas stations in next eight years' time.

Kunal Sheth: Sure. Thanks.

Moderator: Thank you. The next question is from the line of Shrivin Prasad, an individual investor. Please go ahead.

Shrivin Prasad: Hello. Yes, I'm audible. Yes. I was just telling that my questions have been answered.

K Srinivasan: Can you repeat your name and the question because we have not said it is answered.

Shrivin Prasad: Okay. Yes. The question was the breakup of booster and the mother compressor and that you have given and their market size.

K Srinivasan: Alright. Okay, thank you.

Shrivin Prasad: Yes. Thank you so much.

Moderator: Thank you. The next question is from the line of Suraj Nawandhar from Sampada Investment. As the participant left the queue we'll move to the next question which is from the line of Naveen Shah from Valid Quest Investment. Please go ahead.

Naveen Shah: Thanks for the opportunity, sir and congratulations on a good set of numbers. Sir my first question is on the gas compressor industry or the opportunity that we spoke about like Rs. 7,800 Crores on the mother station and another Rs. 3,800 Crores on booster. So, if you look at this capex, it has to happen within next eight, nine years. So, the annual opportunity comes to around close to Rs. 1,500 Crores. So, where is the mismatch and what kind of market share are we targeting, because as I understand, we currently have close to 50% market share in the gas compressor market?

K Srinivasan: Yes. So let me clarify this, because part of your question was lost in the connection, but I broadly understand what you asked. See the topic of CNG mother station and daughter station is only at the distribution level. So, that is one part of the gas business that we do. There is also the other part which is about the same size which is really the upstream, midstream and downstream, right from the offshore or pipeline onwards we install those large compressors packages, etc. which take the gas from the offshore or onshore wells to the gas purification plant and then from the plant into the pipeline. So, we are into those businesses as well. In that area of business we are now getting into Middle East, another areas, there we have a higher percentage of success. At the moment in India, we have a larger percentage share of those businesses. We are about 50% in the CNG station at the moment. We are not there as we speak in the hydro booster business which we plan to get in from the first quarter. So, that's broadly the split that we are talking of. We will address other businesses around this space. Like I said getting into biogas which will also get fit into the gas pipelines. We will also enter the large package business of upstream, midstream in Middle East. So, I would be careful about looking at only the PNR number of what gas stations we would put out in the next eight years. This industry itself is still very large. The gasification of the energy basket is still a major activity across most parts of the world. We are moving away from the liquid fuel towards gaseous fuel eventually into hydrogen. So, this space is seeing a lot of activity and we still have the advantage to be a leading player in this.

Naveen Shah: Sir, I share your views on that. In fact, I was asking that if you look at the CNG opportunity itself, leave aside the upstream opportunity, this itself can be like a Rs. 1,500 Crores kind of per annum opportunity because this Rs. 12,000 Crores has to happen within next eight, nine years. Right?

K Srinivasan: We have to be careful about budgeting based on projections from a government body, right. So, these eight years can end up in 10, 12 years as well. So, we will have to be careful on that but you're right broadly by calculation, these numbers are right. And also, we must understand that the first set of compressors, would by that time, most of them would've done 10 years. So, they would all come up for renewal. There are quite a few other things that can happen, with even the inflations that are in place.

Naveen Shah: Right. Understood. And sir on the air compression side, so we had launch this rotor screw compressor and we had seen some initial success. So, how has in the whole year for us in that segment and what are our targets for next couple of years?

K Srinivasan: I think we answered it. We have in terms of numbers grown significantly in the compressors produced, delivered and working. We expect to grow further in this going forward. Also, we hope to participate by supplying parts of this value chain for Europe and America going forward.

Naveen Shah: Sir, how big would this rotor screw business be in terms of annual size?

K Srinivasan: The Indian screw compressor business could be anywhere about 20,000 compressors. I'm giving you a very, very, very rough number because there are a whole lot of things being imported, packages, air ends, all kinds of things. So, roughly at least about 20,000 compressors are out there.

Naveen Shah: And our, what would be our number currently?

K Srinivasan: As we mentioned we are very small. We are less than 2,000.

Naveen Shah: Okay. Just one last question, clarification on the volume number that you shared. I missed that number we did around 3,100 compressors for this year was this 2,300 compressors last year. Is that number right?

K Srinivasan: That's right.

Naveen Shah: So, then overall the volume growth has been closely 35%. So, is it because of the mix change that we have reported lower sales growth?

K Srinivasan: No. The compressor is only a part of the whole. So, the product mix is a bigger thing. The number of packages and large projects that we did this year was less than what we have done in other years.

Naveen Shah: Okay. Understood. Thank you, sir.

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

Dhruv Khatri: Hello. Good evening. I hope you're doing well.

K Srinivasan: Good evening. Yes. Thank you.

Dhruv Khatri: I have one question. This is in terms of the order book, what kind of revenue visibility do we see for the next year or maybe FY'23 and FY'24?

K Srinivasan: The general guidance we have been saying is, we will grow double digit top line and bottom line. The order available gives us the confidence that we can stay to the general guidance that we have been talking of.

Dhruv Khatri: Okay. And this Rs. 2,000 Crores of revenue, when do you expect to reach this?

K Srinivasan: There again, the general guidance is, we will get there in two to three years. Everything goes well, two years and things don't go as well, maybe three years.

Dhruv Khatri: Okay, great. Got it. Thank you.

K Srinivasan: Thank you.

Moderator: Thank you. The next question is from the line of Karan Kansara, an individual investor. Please go ahead.

Karan Kansara: My question was on the part of the revenue projects that you said of Rs. 2,000 Crores. So, what will be the sustainable margins for the coming years?

Suhas Kolhatkar I don't want to put a number per se, but my submission is that as the top line grows, our margins will also improve, because we will have the overhead spread over the contribution coming from the higher top line. So, if today we are operating at margin of about 13% - 14%, we should see a growth in the margin in the coming years. And as Mr. Srinivasan said, initially we might have some, I mean margins getting maintained because of the introduction of the new products, but once we get established, our EBITDA margin should improve beyond 14.8%, what we have been achieving in last couple of years.

Karan Kansara: Okay. Thank you. That's all on my side.

Moderator: Thank you. The next question is from the line of Suraj Nawandhar from Sampada Investment. Please, go ahead.

Suraj Nawandhar: Sir, my first question was about one of the promoter family, Kulkarni family taking an exit from the business. And they also said that they're settle down there, whatever stake they are with the company. So is the Kirloskar family looking to buy out their stake?

K Srinivasan: So, I think only the owners can answer these. We as the management would not be able to answer to this question. So, this is nothing to do with us.

Suraj Nawandhar: Right. And sir what would be the timeline Kulkarni family looking at selling down the stream?

K Srinivasan: Again, all of us have only the information that is out in the public domain which said that they would have a cooling period which is known to all of us which is six months and then they would do what they plan to do appropriately. So, I think we would've to take it to the extent what all of us know in public.

Suraj Nawandhar: Okay. No problem. And is there any bit on the RoadRailer business, any further development over there?

K Srinivasan: RoadRailer business is still something which is largely dependent on government regulation. What is available to us today is we run the railers between Delhi and Chennai. That's the only route given to us. We have run last year more than 2,000 railers up and down, which is something like 50% more than what we ran the previous year. So, our own efficacy of the business, the model, it's value to the customer is all proven. So, we take something from the warehouse or stores from Delhi or Chennai and deliver to a warehouse end-to-end completely automated. Now, the only way this business can scale up is they allow it to run with container trains and other things on other route. Through railway permit that we are going to ever remain constrained with this small size. We are still working on it. The government through its Gati Shakti scheme had announced that they will allow these railers to be attached to the container trains, etc. If that really happens, when people start scaling up, then we will see this business will blossom, in which case we will go to what we originally start to do, which is really to make these RoadRailers and deliver it to people, like the logistics companies who would attach it to trains and run. That is our core business. So, we have to move to that. It is still work in progress and we are only waiting for things to fall in place.

Suraj Nawandhar: So what we stopping railway from giving that, what more information do they need, or what is the concern that they have?

K Srinivasan: This is exactly what we asked railways as well.

Suraj Nawandhar: So, any timeline based on your discussions?

K Srinivasan: Yes, again, like I said, it is based on government. We have to work with them. They are aware of it. They're appraised of it. They understand it and hopefully they would act on it.

Suraj Nawandhar: Perfect. Thank you very much, sir.

K Srinivasan: Thank You.

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

Dheeraj: Yes. Good afternoon, sir and thanks for the opportunity. Sir as you said that all our orders are fixed in nature. So, because of this higher inflation, you know, do we foresee, margin pressure in coming quarters?

K Srinivasan: We all take a certain estimate about how the commodity prices are moving. And we try and put it in into our orders. We also try and buy critical items at fixed price from our vendors and that is the reason that at the end of the year, our inventory is almost doubled. We are almost holding Rs. 200 Crores of inventory. So, we are trying to cover a part of it by getting more advance from the customers to ensure that we are able to lock in at the price. So, we are taking operationally several steps to ensure that the margins do not get eroded, but this is again, based on estimation, if there are extra-ordinary things that happen, for example, in the last eight weeks, the freight from Europe to India has gone up three times, sea freight has gone up three times. So, these are extra-ordinary things nobody can factor. In those cases, we would have to see how we will have to manage. There would be short term erosion in margins but that'll also get corrected.

Dheeraj: Okay. And sir when you say that compressor margins are almost 17% to 18% and it is almost 95% of our business and is the overall margin between 13% to 14%?

Suhas Kolhatkar: Yes. When you look at the compression segment and there are other unallocable expenses, including expenses from the non-reporting segments, depreciations, etc. So, obviously that would have impact of about 3% to 4% on the net margins vis-a-vis the segmental margins.

Dheeraj: So, this 17% to 18% is a total margin you're talking about. And after this expense, the EBITDA margin of the business is 13% to 14%.

Suhas Kolhatkar: Company level margin is about 13% to 14%. Segment level which is compression segment it is about 18%. You can see it from our segment wise revenue and results and capital employed given along with the annual results to the stock exchange. You will understand it better where the margins have got, what is the impact of other unallocable expenditure and profit and loss of other non-reportable segments, etc.

Dheeraj: Okay. Who are the current players who are supplying these hydraulic boosters in the markets?

K Srinivasan: The hydro-booster compressor today is supplied by over 8 to 10 small players. None of the bigger companies are in this. There are a lot of local players who seem to have got into this with various value chain. They would either import parts of it, put together some part of it. The need for us to get into it was primarily from the customers pushing us saying that look, we need at least one good, organized player to enter this market and make these products. And that's the reason we have got into this.

Dheeraj: Okay. Sure. Thank you so much sir.

K Srinivasan: Thank you.

Moderator: Thank you. The next question is from the line of Archit Kapadia from Elara capital. Please go ahead.

Archit Kapadia: Yes. Thank you for giving me the opportunity, sir. Very good evening. You mentioned that you'll be supplying some parts for the value chain for compressor business to Europe and USA. So, have you received any certification for these products or are we still in the stage where we will be getting a certification and then you'll be supplying to these countries?

K Srinivasan: These products are not restricted or regulated in that sense, they are tested by the buyer. I mean, if somebody is buying our air ends, they have them tested, run it in his packaging and see whether it meets his requirement, be it the air ends or screws or anything else. So, this is a process of getting the commercial in place, getting the pricing and availability in place and then they're running tests. We will talk about it as we go forward and have a few establishments running and then we will share more detail, but this is WIP.

Archit Kapadia: Okay. And have you given some products which are under the testing phase right now in these facilities?

K Srinivasan: No, we have not delivered anything. And I would like to talk about it as we go further in it. There are still basic discussions that have to be in place, tests have to be done within the country. Like I said, first it is commercial tie up, then working on basic acceptance, pricing and then it'll be going for field trials and testing. So, this is WIP and we will share it on quarter basis as the things move up.

Archit Kapadia: Okay. And generally, does it take like six months to nine months to move?

K Srinivasan: Yes, it'll take at least six months.

Archit Kapadia: At least six months to move from the testing or WIP?

K Srinivasan: Any kind of a small start. It doesn't scale up rapidly in the first year because they in turn would like to put it in their field, see the value of it and then they scale up.

Archit Kapadia: Fair enough, sir. This was very helpful. The second question is on the margins as you highlighted. So, just wanted to check are the export margins are better than the domestic margins and that is one of the reason why you're so confident on the margins. You'll be able to scale up apart from the operating leverage reason that you highlighted?

K Srinivasan: At the moment, like I said, a predominant part of the export orders that we have booked are for packaged compression systems going into Middle East. Now package compression systems are a long cycle thing. It'll take us anywhere between six months to a year to complete these projects. These margins are little bit shaky in the sense, if everything goes well and we execute in six months, no great inflater pressure. We make good margin. And if it takes more than a year and we have gone through some pressure, we actually make no margin. So, this is a bit of a difficult thing to give you a number, but as we move more and more towards like what I mentioned, when we get into the value chain, there, the margins become more predictable. We expect to move as we scale up and to move predictable margin business, and consequently that'll help our overall margin reliability.

Archit Kapadia: Fair enough, sir. It was very well explained and all the best for your future, sir. Thank you.

K Srinivasan: Thank you very much.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Dhirender Tiwari from Antique Stock Broking for closing comments.

Dhirender Tiwari: Thank you, Mr. Srinivasan and Mr. Kolhatkar. It was a great year and hopefully the years ahead will also be really great. Thank you for giving us the opportunity for the call.

K Srinivasan: Thank you all for participating. We appreciate it and we need all your good wishes to see that next year works out as well, if not better for all of us. Thank you very much.

Dhirender Tiwari: Right. Thank you very much. Thank you all the participants.

Suhas Kolhatkar: Dhirender, thank you so much for organizing the calls throughout this year for all four quarters and we look forward to work together.

Dhirender Tiwari: Thank you very much, sir. Thanks all because of your support. Thank you very much.

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

Note: This transcript has been edited, wherever required, to ensure quality.