"Kirloskar Pneumatic Company Limited Q2 FY24 Post Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Kirloskar Pneumatic Company Limited Q2 FY24 Post Results 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Dhirendra Tiwari from Antique Stock Broking. Thank you and over to you, Sir.

Dhirendra Tiwari: Thank you. Good evening, Ladies and Gentlemen. On behalf of Antique Stock Broking, I welcome you to Q2 FY24 Post Results Conference Call of Kirloskar Pneumatic Company Limited.

I am glad to have with us today, Mr. K. Srinivasan - Managing Director and Mr. Suhas Kolhatkar - CFO of the Company.

Now, I invite Mr. Srinivasan to give his initial remarks and then we can start the floor for Q&A. Over to you, Mr. Srinivasan.

K. Srinivasan: Good evening to you, Sir and good evening to all of you. Let me first request my colleague, Mr. Jitendra Shah to read out the disclaimer and then I will go ahead with the call.

Jitendra Shah: Thank you, Sir. Good evening to all.

The discussion on the operating performance of the Company may contain statements relating to future business developments and economic performance that could constitute forward-looking statements. While these forward-looking statements represent the Company's judgments and future expectations, a number of factors could cause actual developments and results to differ materially from expectations. The Company undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances. Further, investors are requested to exercise their own judgments in assessing various risks associated with the Company and also the effectiveness of the measures being taken by the Company in tackling them as indicated during the discussions. Thank you.

K. Srinivasan: Thank you, Mr. Jitendra Shah and once again good evening to all of you. Let me start by wishing you all a very happy Dussehra and Diwali going forward.

As far as, the results for the Q2 are concerned, H1 for the FY24 was one with many initiatives and with modest results, and we are aware of it and we will try and explain how this would be taken forward. The poor clearances for the executing CNG package orders, the lower export orders from the Middle East and the general delay in the execution cycle, all contributed to lower sales than the last year. However, the order finalization in H1 was over Rs. 850 Crores. This is 65% higher than H1 of last year. This gives us clear visibility of orders for execution in H2 and we still expect to deliver reasonable double-digit growth for the year. The Sales for the quarter were at Rs. 282 Crores as compared to Rs. 295 Crores of the previous year. This was down by about Rs. 13 Crores as compared to Q2 of FY23. H1 Sales at Rs. 524 Crores were lower by Rs. 40 Crores as compared to H1 of last year.

The profit before tax in Q2 was Rs. 26.8 Crores as compared to Rs. 35.9 Crores of Q2 FY23, coming from lower sales and the onetime workmen dispute settlement cost of about Rs. 4 Crores. So largely, this is in line with what we normally get. Export sales at Rs. 38 Crores in H1 were significantly lower than the corresponding period of the last year, where it stood at Rs. Rs. 86 Crores. Thereby it is about Rs. 47 Crores lower as compared to corresponding period of last year and this really makes a difference between H1 of this year and the previous year. We expect overall exports to be lower for the current year compared to the Rs. 177 Crores of the last year.

Domestic sales growth is expected to drive overall sales growth for the year. Order inflow at an all-time high of Rs. 850 Crores in the first 6 months across – Air, Refrigeration and Gas Compressors, boards well for the execution in the next half. Overall, order bank at the end of H1 at Rs. 1,450 Crores is significantly higher than at the beginning of the year, which is about Rs. 1,150 Crores. This will clearly help us going forward. Capex spend so far, including capital work in progress is about Rs. 28 Crores. This includes the forging plant and fabrication facility at Nashik, which was inaugurated on September 26, 2023. This will help us to have cost competitive value chain with added advantage of quick execution. The working capital as on October 1, 2023 was Rs. 239 Crores compared to the opening working capital of Rs. 266 Crores at the beginning of the year. Cash flow continues to remain strong and will help us in our accelerated execution going forward. Overall, cash generation from the operation was close to Rs. 88 Crores. This speaks of the robustness of our business model.

Let us now discuss the results by product lines:

Air Compressor business: The Air Compressor business continued to grow steadily with the Screw Compressor sales actually catching up for the first time with the Reciprocating Compressor business. This is a good sign, because this is a relatively newer product line and this is picking up faster. We have started seeing good pickup in the orders for the Tezcatlipoca range of Centrifugal Compressors. This is being the only fully Made in India Centrifugal Compressor in the market, offers the lowest lifetime cost of ownership. We expect this to be a star product group going forward, driving growth. Reciprocating compressor packages of carbon dioxide and air separation also continues to see strong growth.

Refrigeration and Compression Systems: In the Refrigeration Compressor System, sales for the Reciprocating ammonia refrigerant compressors for cold chains and ice plants continue to grow. We remain a dominant player in this. However, scaling up of the Khione Screw Compressors has been rather slow with long try-out cycles. We hope to see some traction in H2. We have received several orders for the refrigeration packages from the petrochemical and fertilizer plants in Q2. The Government of India's intent to phase out urea imports by 2025 has accelerated setting up of several ammonia terminals and tanks. KPCL remains the preferred choice for supplying refrigeration systems for this application and we have won quite a few orders in this space.

Process Gas Compression Systems: There has been a general shift with more and more Gas Compression Systems orders being released as a comprehensive EPC order. Several local, mid-sized players have been bagging these orders. We are now in discussion with them to execute the Gas Compression packages for them. This has delayed the order finalization as well as put additional pressure on the margins, plus the time it takes to execute these orders. The sustainability of this way of execution remains to be seen, how far this will go. We have taken a couple of orders from the more organized of these EPCs. Clearances for installing CNG packages were a serious issue, however, things seems to be getting better with more clearances for September and as we speak for October as well. With the stabilization of LNG imports and prices, we expect the CNG package installations to pick up in H2. However, we believe a significant portion of this would come from the Calana Booster Compressor packages and not the CNG packages. O&M service business continues to be normal and their payments from this are also getting better.

Outlook for H2 FY24: The various wars have seriously impacted the global economy and caused a general slowdown. Since we are vertically integrated to a very large extent, we are not seriously impacted, both, in terms of costs as well as availability of inputs. Also, our exports are not significant part of our total sales planned for the year, hence we seem to be relatively isolated and insulated from this war impact. The impact for our business is expected to be minimal. The demand in the domestic market remains buoyant, largely driven by the Government capex; however, the execution challenges in terms of delay and procedural complexities persist. This impacts predictable sales quarter-on-quarter.

The softening of the LNG prices and the acceleration in their domestic fertilizer production gives us a clear visibility of orders for both Refrigeration and CNG gas packages in the next four quarters. The strong growth in the order intake in H1 gives us the confidence that we will deliver double-digit growth in the current fiscal. We remain committed to our aspirational target of being a Rs. 2,000 Crores Company in 2 years and we earnestly believe that in spite of the poorer first 2 quarters, we would do well in H2 and come to our aspirational target quickly. I would now request Mr. Suhas Kolhatkar, to take us forward with the financial details.

Suhas Kolhatkar: Thank you. Good evening, everybody. I hope you were able to go through the results which we posted on the Bombay Stock Exchange as well as on the National Stock Exchange website yesterday after conclusion of the Board Meeting. For your benefit, we have also uploaded a presentation on the results on our Company's website. I hope you must have gone through that. However, those who have not been able to go through it let me quickly summarize the Q2 and H1 performance of FY24.

Sales of Q2 FY24 were higher as compared to Q1 sales of the current year. At Rs. 282 Crores, it registered a growth of about 16% as compared to Q1 sales of Rs. 242 Crores and as compared to Q2 of FY23 sales were lower by Rs. 13 Crores, essentially due to the drop in export business in the current quarter, which was at Rs. 26 Crores only as compared to Rs. 43 Crores in Q2 of FY23. CNG business remained muted in the current quarter. The H1 FY24 sales were lower at Rs. 524 Crores, as compared to Rs. 567 Crores of H1 FY23 more or less by the same amount of export sales difference of Rs. 43 Crores. The other income for the Q2 FY24 was about Rs. 4.2 Cores, which more or less remained at the same level of Q2 of FY23, though lower than Rs. 5.7 Crores of the first quarter.

Material cost for Q2 of FY24 was 54.1% as compared to 55.6% in the corresponding quarter of the previous year. For H1 FY24, material cost improved to 52.8% against 56.3% of H1 FY23. Mix of project and product remained at about 50:50 and this brought down the overall material cost. We expect material cost to remain more or less at this level, should the product mix remain the same. ERE observed was higher at Rs. 44 Crores in Q2 as compared to Rs. 41 Crores in Q1 of CY and Rs. 35 Crores of Q2 of PY.

Liberal increments and promotions were given to all the deserving employees during the year, apart from matching the salaries to the current industry levels. Further, the Q2 cost includes about Rs. 4 Crores paid to settlement of pending labour dispute arising from termination of 117 employees in the year 2018. H1 cost of FY24 therefore is at Rs. 86 Crores, as compared to Rs. 72 Crores in the corresponding period of FY23. So, out of this Rs. 13 Crores, Rs. 4 Cores are attributable to the one-time settlement of the pending labour dispute and Rs. 9 Crores of the normal increments that we gave in the first half of the current fiscal.

There is no interest cost relating to any borrowing either in Q2 or H1 as the Company is a debt-free Company. At this juncture, I would also like to state that the Company has a net cash and cash equivalent position of about Rs. 230 Crores as on October 1, 2023. Previous year, it was about Rs. 160 Crores. You will observe that during the past one year, the Company incurred capex of about Rs. 60 Crores; I am talking from 1st October to the 30th September of the current year and paid dividend of over Rs. 36 Crores.

Depreciation is in line with the previous year and additions to assets. Other expenses are mix of fixed and variable costs. There is no significant variation in the level of expenditure during the current quarter as compared to the previous quarter, except that in Q2 expenses on CSR were incurred apart from some machinery maintenance costs. EBITDA was marginally lower at 12.5% in Q2 as compared to 13% in Q1. For H1 of FY24, EBITDA is also marginally lower by 0.2% at 12.7% as compared to 12.9% in the last year.

PBT of Rs. 26.8 Crores for Q2 showed improvement over Q1 PBT of Rs. 23.5 Crores and remained at about 9.5% equal to Q1 PBT even after absorbing higher employee expense and other costs, which means that the improvements in the margins have helped us to retain the levels of PBT at about 9.5%. PBT for H1 was however lower due to these costs and drop in sales by about Rs. 43 Crores. Consequently, PAT also rose in Q2 in comparison with Q1. H1 of FY24 PAT showed a marginal decline of 0.5%. Company issued about 20,000 equity shares in Q2 aggregating to 40,200 equity shares in H1 under its employee stock option plan. Consequently, paid up share capital increased to Rs. 12.94 Crores as compared to Rs. 12.93 Crores at the beginning of the year. Basic EPS improved to Rs. 3.12 per share in Q2 against Rs. 2.77 per share of the Q1.

With over 90% of the revenue coming from the compression segment, it remains the only reportable segment. The segment's profitability in Q2 improved to 18.1% as compared to 16.5% in Q1. Similarly, segment profitability for H1 of FY24 also improved to 17.3% as against 16.5% of H1 FY23. You would recall that more or less our segment profitability from compression segment was around 18%. Order booking during the Q2 was close to Rs. 410 Crores taking H1 order booking to Rs. 860 Crores. As a result, the Company has an order board or order book of Rs. 1,450 Crores as on October 1, 2023. Previous year, it was nearly Rs. 1,200 Crores. Advances from customers consequentially also increased to Rs. 100 Crores plus as compared to Rs. 63 Crores at the beginning of the year. Capital employed in the compression segment was brought down by Rs. 44 Crores and was about Rs. 261 Crores as compared to Rs. 305 Crores at the beginning of the year. This speaks well about the working capital management of the Company.

As indicated earlier, during the quarter, the business from projects and products were more or less similar at about 50%. So, before I conclude, I would like to extend my warm greetings to all the participants for coming festive season of the Dussehra and Diwali. We will now take the questions from the audience. Over to you moderator.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Angad Katdare from Monarch Networth. Please go ahead.

Angad Katdare: My first question is related to the order book; can you please throw some light on the order book details? How much is due this year? How much will be due next year? The split of the order book; that will be helpful.

Suhas Kolhatkar : We have the order board of close to Rs. 1,450 Crores plus and about Rs. 600 Crores plus would be the orders executable in the next year. Rest would be there for execution in the current half or the next half.

Angad Katdare: And one question is related to the Aria range of air compressors, so could you throw some light on the end use cases, specification, scope of market, market size etc.?

K. Srinivasan: The Aria range of air compressors are primarily targeted for off-the-shelf compressor selling. These are general compressors, which can be used for anything from a power tool to a paint booth to a sharp air etc., and these are generally bought off-the-shelf by customers today, mostly MSMEs and they want it to be in a very limited power requirements between 7 kilowatts, 22 kilowatts and 37 kilowatts; fixed range, no specials, but smart machines. They would be easy to use, easy to install, easy to maintain and extremely competitively priced.

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

Rohit Ohri: Sir, I really love that line from the Annual General Meeting where you said the only way to handle pressure is to apply, certainly we have a little bit of pressure right now, hopefully we will handle it well. So, I have two questions with our fall back in the view, the first question is related to the market acceptance of the orders and the opportunities from industry 4.0 which is related to the new products that is Khione screw compressors, Calana Boosters and Tezcatlipoca. Sir, do you see that there will be more products which are in pipeline or do you think that there are more catalog products which have come forward and are you looking at patenting these products or these technology?

K. Srinivasan: So, thank you for the appreciation of our tagline. The Khione screws were the first of its kind, Made in India for refrigeration application. They compete against imported screws from Japan and Europe. We probably underestimated the time that it takes to complete it, as packages get them to be used by customers and large-scale conversion happens, because the end customer still doesn't buy these screws, only the OEs buy this. They eventually have to package it and put it up at customer sites and the customer only sees the final outcome, so his choice is very limited. So, if he is traditionally used to getting something from an OE supplier with the Japanese screw, you would just stay with it, don't care, do anything else. So, we quite honestly underestimated the resistance that we would face in terms of scaling up, but having said it, I will also say that this is now moving, and it has taken time. There has been a very shallow curve, a lot of effort, very little results, but now it is moving. It is probably hitting a tipping point hopefully in H2 and then we will see the volumes picking up. The Tezcatlipoca range has crossed a tipping point. We had a month when we booked 7 compressor orders, the market size is anywhere between 300 compressors to 500 compressors a year. So, we expect that we will start seeing volumes coming in H2. Executions will scale up gradually. It will go to H2 and to the next year.

Rohit Ohri: Sir, my second question is related to the tension probably related to the MENA region, in the past, we had backed some order from Turkey where we were trying to work for some cold chain ice plants for them, so if you can share some more details on the progress, the payment schedules for the same and if you can share the order size and have you run some more orders of the same size if you can share that?

K. Srinivasan: With Turkey, we had got orders for what we call as the ammonia compressors. These are compressors used for the cold chain and ice plants. Thankfully they were not big projects and they have been supplied and they have been subsequently resold to the end users through the OEs, etc., and there is a certain level of acceptance, which was far better than what we would have expected. It will gradually pick up. As you know, with the conditions of market as it is today, we are not very aggressively pushing or supporting any of these sales at this moment, but we will gradually push this. So, we are not anyway impacted, they were not major project kind of thing. They were equipment sales, and they did well. We expect it also to scale up going forward.

Rohit Ohri: The last question is related to the business opportunities and probably some work which is done in Philippines. If you can give us certain details on it.

K. Srinivasan: We have done very little work per se, except for the ammonia compressor, which is the ice plant and cold chain. Philippines is largely driven by fishery market and we have had our compressors installed there. We have still not got there with the Khione screws, but most of what we have sold there are ammonia compressors. We have been participating in the cold chain shows, etc., and it is scaling up. It is a relatively smaller market for us, but it is scaling up.

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

Amar Kedia: Sir, my first question relates to the Delhi EV policy which came up earlier this week and on the back of that, there are concerns that CNG as a category to begin with for public transport and for the aggregators that will get hampered, so would that mean that the overall rollout of CGD Infra would also get delayed and in turn demand for your applications in that space gets impacted?

K. Srinivasan: I don't know whether we are talking about the same thing, but what I did read and what we have been told is that there is an additional emphasis on having more of public transport being shifted to CNG packages or to any other renewable. So, they want to still go around taking out the diesel as far as possible. The change that is happening and this has happened over the last couple of quarters is that the availability of CNG being low and the price being high, the difference between CNG and diesel being very low, new vehicles were not coming into the market, be it the four-wheelers or otherwise. Even that has changed because I think over the period of the last couple of quarters, more LNG terminals and LNG availability has increased, the availability of gas, both for fertilizer as well as for city gas distribution. In fact, you would have recently seen the 12th round of allotment. They are still talking of getting it up to 8% - 12%. So, CNG's use is still stated to go up. You would have seen a recent article saying that the number of installations would go from 5,000 to 10,000 with the completion of the 12th round. So, this is still part of the Government's plan to increase use of gas in the energy basket. That stays, it has not changed.

Amar Kedia: Perhaps, I think what you are referring to is at an all-India level, but I was talking more specifically about the Delhi plants, which very specifically mentioned that by 2030, all aggregators will have to move and 100% of the aggregators will have to move to EVs only, so I think that was specific to that market. I think the fear is that gradually this could wrap up to some of the other major cities in the country.

K. Srinivasan: Not so far. I haven't had any kind of feedback to that extent, but we will go through it again.

Amar Kedia: Sir, the second question that I had was on the export opportunity, so what we have seen is that in the last one and half years, in the Middle East and specifically in Saudi Arabia as well as maybe some of opportunities in Qatar, gas compression packages, related orders have come up in a big way, we had some really large orders from L&T, for example, we have also taken up some really large orders in this area, would that by any chance be an opportunity for you and historically maybe also if you can step back and explain how do these orders come up, do they come from L&T to you or is it that directly from the customers?

K. Srinivasan: So, the order booking across Middle East for gas compression systems has been very good in the last 2 years - 3 years. In fact, last year, the Rs. 177 Crores of exports we did have almost about Rs. 150 Crores going into the Middle East. Most of it was gas compression packages, one of it was the refrigeration package, but primarily all of them addressing the gas business. This year we have not got any of those big orders. We have got a lot of smaller ones. The way the thing works is there is an end customer, then there is a consultant and then there are several EPC contractors, but the main EPC contractor who gets most of the gas related business gets the compression packages as well. He in turn orders it on, people like us who do the package for him. We work with the consultant to get qualified. We have to be acceptable in the approved list of the customer and then the EPC contractor would take quotes from us and several others and then finalize it. This is how the whole thing works. We were expecting far more finalization during the last year. There were several, over Rs. 400 odd Crores worth of packages that they have quoted. Unfortunately, many of them did not get finalized plus and minus, now if some had been finalized and then if they get delayed, you end up with trouble, which is likely to happen in this quarter. So, we don't have any big orders for execution in the gas packages at the moment from the Middle East, but we are still in discussion on several packages from the Middle East and most of it would be with EPC contractors, including the large one that you have mentioned with L&T. They are also looking for things and these discussions go on and they are finally decided by the EPC contractor.

Amar Kedia: Just continuing with that, so L&T winning these packages today, what kind of a timeline should one expect for that to convert to orders to fix an opportunity for you, but would it be fair to say at least a year or two of lag? so that is one. And the second is that so for this year it is very clear that exports will decline, but on this given that you are not bidding for, you do not have some large orders on the exports right now, how should one look at next year from an export opportunity perspective?

K. Srinivasan: So, the first thing is, the orders take anywhere between 12 months to 16 months for us to execute. If you take the example of L&T, they would have taken this order for execution over 3 years - 4 years and then they would have to finalize the various package suppliers, be it the compression package, be it so many other things and each of them would take anywhere between 12 months to 18 months to complete, so we are not there yet with any of these big packages. Several of them are in the preliminary discussions. So, as we speak large packages for exports for next year, we do not have, which means most of next year's sales will also be domestic because we have some fairly good number of large orders for domestic. You must keep in mind that India is the happening place today for large packages, particularly, I mentioned on the fertilizer sector etc., so we are going to be quite busy with domestic market next year and this is actually a nice place to be in with whatever is happening around the world.

Moderator: Thank you. The next question is from the line of Jonas Bhutta from Birla MF. Please go ahead.

Jonas Bhutta: A couple of questions, sir, while execution has sort of lagged expectations, but we have one order win, seems to be pretty strong, so if you can help us understand which segment of the market seems to be driving this order inflow and whether it is still gas compression led?

K. Srinivasan: So, first thing I must say is that, yes that execution has not been to our expectation, your expectation and to our plan as well, but what we must also point out is the operating efficiency, be it material cost to sales, be it working capital intensity of business, be it cash generation, they were all clearly well within our planned parameters, so that was the nice thing for the Company. So, I would only say that look, we didn't need plans, but if you look at the elevation, the mountain that we climbed, I think we did quite a bit of climbing in the first two quarters. We have quite a bit of orders that we have picked up and these are good orders and they are domestic orders, executable orders and in all the three sectors. We have picked up orders in the Air Compression business, largely coming out of the new businesses, Centrifugal and others. We have picked up decent orders in the Gas Compression businesses, packages for execution in India and we have picked up some very good orders in the Refrigeration packages, primarily focusing on ammonia. So, we have picked up in all the three buckets driven by Government capex spend. This I must keep saying, it is largely driven by Government's capex spend.

Jonas Bhutta: The CGD kind of business that is sort of lagging execution would form what part of our order book, as of now, so out of Rs. 1,450 Crores roughly would account for what?

K. Srinivasan: The orders on hand would be anywhere up to Rs. 80 odd Crores, but we have to do a lot more. To give you an idea how fast this business has changed and I think you would have been reading as much from a 6% growth in this line that has come down to 2.5% and this includes gas usages in domestic as well as in fertilizer, so really there has been a tremendous slowdown in the new gas connections and CNG stations in the last year and that has impacted us and it has been going on for almost a year and a half. At the peak, we did well about 220 odd packages a year. We went down to 158 packages and now this year we are likely to be even lower than that. So, really there has been a significant degrowth in the CNG package installations for the last 3 years and this is exactly the opposite of what the Government has been putting out in terms of new allocations, etc., but what we did and did ahead of time, or at least on time has been to get the booster compressor business running. This year, we will end up probably doing anywhere about 120 to 150 booster compressors. That is a good thing because that in a way it allows us to catch up on whatever we would miss in the CNG package and that has been a good thing for us.

Jonas Bhutta: But that would come at the cost of margin, Sir?

K. Srinivasan: It would come at the cost of unit price being significantly lower, also the margins being marginally lower.

Jonas Bhutta: Sir, my second question was on one of the previous questions that highlighted that there is significant capex happening on the gas side in the Middle East, just from a clarity perspective, do we need to get pre-qualified with Aramco or we are already part of that select PQ list of Aramco?

K. Srinivasan: We are not in approved or in the qualified list with Aramco, but we are in qualified list with several of the EPC packages who work with Aramco, so they would get qualified, and we would have to then work through them to do a sub package.

Jonas Bhutta: So, the prequalification is more from the EPC/OEM side and not as much as from Aramco?

K. Srinivasan: The determining factor would eventually be the EPC guys ability to carry us along with him, but we are in a way very visible and acceptable with all the major EPC suppliers in Middle East because we have several large packages executed in the last 18 months and they have been extremely well received and accepted. So, there is what is called as what eventually everybody looks at is a PTR - Proven Track Record and that is there for them to see.

Jonas Bhutta: And in the last call Sir, you had mentioned that there are export opportunities though may not immediately, but upwards of about Rs. 800 Crores that were visible and some of them will probably flow through only in FY25. Any progress on that, is that happening on time or that is also getting pushed out to FY25?

K. Srinivasan: We are in discussion with all of these things, one or two have been deferred as we speak. We know for sure a couple of projects we talked about in Bahrain, etc., have been deferred, but there are a couple of new ones that have also come up with Edmark and others. So, we would like to see how this moves. There are a significant number of proposals that are being discussed.

Jonas Bhutta: And lastly, if you can update us with the first half sales mix, because if the gas compression side, particularly the CGD compression has seen some slowdown, there would be a change in our sales mix, so you may really appreciate if you give us some more updated sales mix on the first half sales basis.

Suhas Kolhatkar: So, sales mixes are more or less in line with what we were talking, about 30% came from Refrigeration compressors, about 45% came from Gas compression system, about 18% to 20% came from Air compression. So, that has not changed significantly, though the number of CNG compressor sale has come down, there are other gas systems which has gone up in the CNG business. The Ref business also has been good, both in terms of bare shaft compressors as well as the packages, so that have been good.

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

Mihir Manohar: Sir, largely wanted to understand the order book split which is there, so how the t split works in pure products and projects part of the piece? What is the execution timeline across products and projects? wanted to get an understanding around that And my second question was on the fact that still for this year we are looking at double-digit kind of a number which looks I mean from an asking rate it looks quite high, even for H1 we were looking at 7% kind of a growth versus -5%, which has been there for H1, so what really went wrong on H1 part of the piece given the fact that we just had a call in July itself, the last call, so I just wanted to get an understanding around that. And my third question was on the un-allocated expenses, now when we see un-allocated expenses that are Rs. 19 Crores, so does the Rs. 4 Crores settlement sit over there or how to see that Rs. 4 Crore number? Does it sit in the un-allocated expenses? Just wanted to understand this.

K. Srinivasan: So, what I will do is I will answer the why we did poorly in H1 and then I will ask Mr. Suhas Kolhatkar to explain regarding Rs. 19 Crores un-allocated expenses. Now, as far as, H1 is concerned if we had just shipped out two packages which could have been roughly about Rs. 60 Crores to two of my customers, where we are more or less done it in October, I would have been about 4% to 5% higher than what we are today, I mean last year's number, which means cover the 7% fall and we were still higher than about 4%. The lumpiness of the business means that if just two packages slip, we will go behind number. So, this is one thing that remains as a challenge for this business that there are some packages and products that, just execution cycle changes one month and then we are behind on the numbers. Now, the only way this gets muted is when you have more of equipment sales, when you have more of CNG packages which go regularly, when you have more of equipment sales, more of Khiones, more of air compressors, then it is far more evened out and gives you a certain amount of level playing in terms of the whole quarter that we do. Will we catch up? Of course, we will catch up. You will see the change in the trajectory of our business changes from Q3 and then it will definitely accelerate in Q4. So, that is the way it is going to be. I know the ask rate is very high, but we will try and get to very near the kind of growth that we have been asking for the quarter. Let us do the Q3 and then we will talk of a much clearer number. Then, as far as the un-allocated expenses, I would ask Mr. Suhas Kolhatkar to give you the answer.

Suhas Kolhatkar: Yes, the yearly settlement cost of Rs. 4 Crores is very much there in that and secondly, the CSR expenditure which was required to be incurred for the year. Majority of the cost we have done it in the first part, so that has also gone up in this quarter, so similar rise you will not see in the subsequent quarters and we will be roughly back to our old levels.

Mihir Manohar: What is the value of CSR which is there in this quarter?

Suhas Kolhatkar : About Rs. 1.2 Crores.

Mihir Manohar: And just one last question on the CGD part, what in your view will start revival of CGD capex and CGD rollout?

K. Srinivasan: This is a tough question because like we said, we do not expect the CNG packages which means connected to the grid line to pick up very significantly, because that has got a lot of infrastructure, that has to be built. The quick thing that is likely to happen is people will all try and meet their objectives or meet their commitment by installing more booster compressors, which is what we are also planning and that will be something here and now, but as we talked to a lot of these CGD people who have worked various tenders they won, they are all now believing that it will go through a phase of consolidation. There are quite a few smaller companies that have won several areas and they would not be able to install, they have not made effort and they would probably sell their businesses to the larger ones. So, this will go through a phase of consolidation before it will scale up, very similar to what was happening in the network business, but this is going to take at least another 6 months to a year and a half. In the meanwhile, there would be a low capex driven distribution, which is really going for the booster compressors. This is what we think is going to happen and we are planning ourselves about it.

Moderator: Thank you. The next question is from the line of Aditya Chheda from InCred Asset Management. Please go ahead.

Aditya Chheda: The annual report talks about the volume capacity, that is 350 CNG package, 3,000 refrigeration compressors and 2,000 air compressors, so can you talk about what this number would be in FY24? How many compressors or packages we would have made? And my second question is in terms of CNG packages, how do you see the addressable market growing in terms of number of packages over the course of medium term to long term going ahead with the new, the 12th award was also out, so how should we think about the number of packages scaling in terms of the addressable opportunity?

K. Srinivasan: To answer, I am not too sure I understood the numbers, but I will tell you the total number of compressors we are likely to make across all put together, would be around 3,000 compressors and we have been around this number for the last 3 years. It goes up and down depending on the kind of compressors, but it is around 3,000 compressors. We are setting up capacities within our system which will allow us to go anywhere up to 5,000 compressors. Now that is the capacity that is available, but at the moment we are using probably about 3,000 compressors out of this. So, that is as far as the numbers are concerned. It is a mix for air, refrigeration and gas compressors all combined is what we are talking of here. As far as the CNG numbers, I am going to request Mr Suhas Kolhatkar to give you a color on what we can think of and the opportunity in CNG because I think the PNGRB in 12th has come out, they talk of an overall number of 5,000 going up to 10,000 installations in the next 3 years to 8 years' time.

Suhas Kolhatkar: But mostly, that will come from our booster compressors, Calana series, because if you look at the 12th round allocation, it is mostly addressing the Northeast area of India and Jammu and Kashmir and Ladakh. So, that is where the GAIL pipeline is not available and one would use the booster compressors to fill the gas from the gaskets, that is why you see a very large numbers there because PNGRB did say that about from the current level of 5,600, it would take the total number of stations to about 10,000. So, that is the overall numbers that we are talking about.

Aditya Chheda: In terms of the CNG packages, how should one think of the compressors per package or for example, if we did say 200 packages last year, clearly if you are talking about 5,000 more compressors, so how will the compressors come?

Suhas Kolhatkar: 5,000 compressors will come in 8 years, it is not going to be in 1 year or so because like earlier rounds of CGD distribution, this would also have a schedule of installations.

Aditya Chheda: So, in your opinion as you mentioned 350 CNG packages capacity that should be enough to meet the annual estimated demand which we would have over the course of next 8 years to 10 years?

Suhas Kolhatkar: Yes.

Moderator: Thank you. Our next question is from the line of Jaideep from Janak Merchant Securities Limited. Please go ahead.

Jaideep: Sir, do we have any customers for the biogas compressors and if you can talk about the market developing right now and the competitive scenario and some more about the products and the price of the projects which they are coming up, we are reading a lot about this.

K. Srinivasan: Biogas seems to be the happening thing and as we speak, we have picked up quite a few orders. It was 1 or 2 compressors in the last quarter, but I think in these last few weeks we have picked up more than 7 or 8 compressors. There are two ways by which this biogas is made, it doesn't depend on the BioSource, but it could either go through what is called as a wet scrubbing biogas or it will go through a PEM cell which is really through a molecular sieve or a membrane filtration system. If it goes through the PEM cell**,** it is then a very low-pressure gas, so then we have which is what is becoming more popular, not the scrubbed one. We have a package of compressors for both these processes. The water scrubbed ones are a little more expensive. Very few are setting that up. We have installations for that as well. So, we have sets of compressors for both the processes. We expect them to scale up going forward. The announced Government of India program is 5,000 biogas plants, but we are looking at, even if it is 150 or 200 a year, we are quite happy to supply this. To give you an idea of price, if you go through the PEM route, a package would be roughly about Rs. 2 Crores, if it is from the water scrub, it will be about Rs. 2.5 Crores plus.

Jaideep: And sir, related question, is there any spare services or any income in this like the CNG station?

K. Srinivasan: In both the cases, we can compress the gas up to 250-bar, it is still 95% methane, it can be piped into any of the CNG pipeline, but most likely since the BioSource are all likely not to be shown here any existing pipeline, they may just fill cascades. They may fill the cascade and ship it around. Cascades are to be anywhere filled at 250-bar, so our compressors are capable of either pumping it into a pipeline, in which case you don't have to pump it to 250-bar. You just have to pump it to at least 30-40 bars and then you can directly put it into the pipeline, but this is less likely in most locations, so they would still pump it up to 250-bar, put it into cascades and take it around. So, we have solutions for both, but we believe most of it will go into cascades.

Jaideep: And the competition, sir, that is the last part of the question.

K. Srinivasan: There are competitions in everything and there are from this as well, but a comprehensive solution that can be provided domestically at a cost-effective price, I think we would win.

Moderator: Thank you. The next question is from the line of Sonali Shah from Emkay Investment Managers. Please go ahead.

Sonali Shah: I just actually had one quick clarification, at the beginning of your comments you mentioned about doing reasonable double-digit revenue growth in this fiscal, actually in the previous few earnings calls, you have been talking about 20% plus kind of revenue growth, so just wanted to understand that has there been some kind of revision in the guidance after the kind of first half that has gone past?

K. Srinivasan: Yes, I think you hit it on the head. We were very confident that we would definitely do 20% and above and I think we have moderated it down, saying that look we are likely to be lower than that, not 20%. So, that is the reason why we are saying double-digit plus. So, let us take one more quarter before we give a more aggressive guidance.

Sonali Shah: And sir just one other clarification, out of the Rs. 1,450 odd Crores of order book, Rs. 600 Crores only would be executable by next year, balance, Rs. 850 Crores?

K. Srinivasan: Yes, Rs. 850 Crores is doable this year, subject to all the guys taking it. Our challenge has not been so much of our ability to execute as much as the projects being available to be commissioned. So, we have to ship it to the location, and they have to be available and that has been the challenge.

Sonali Shah: And of this Rs. 1,450 Crores, what proportion would be export related order?

K. Srinivasan: Very little, I think less than Rs. 40 Crores - Rs. 50 Crores.

Moderator: Thank you. We have the next question from the line of Suraj Nawandhar from Prithvi Finmart. Please go ahead, Sir.

Suraj Nawandhar: Sir, can you give some margin guidance given that our exports are not going to be as high as we had expected earlier, so our revenue growth will be lower than what we had expected, so what kind of margins are we expecting this year and also for the next year?

Suhas Kolhatkar: We have been talking about the margins from the compression segment nothing less than about 18% and we have demonstrated that year-on-year whether exports or no exports, because export market last year as we talked about, in the first quarter exports were not so great on the margins.

Similarly, even in the second half of that in the last fiscal, so 18% margin is something that we had targeted for the compression segment and we are confident that we will achieve it. Last full year's margin was also 18%, this quarter we have achieved 18.1% and we are at about 17.3%-17.4% for the first half. So, as the sales grow up, it would be better than the current margin of 17.3% and it will hopefully cross 18% as well.

Suraj Nawandhar: Are we targeting to bring our Company level margins, which we are doing around minimum 12% to 18% level margins?

Suhas Kolhatkar: We had talked about it in the past that we have one bad element I would say, which is that absorbing the cost in the form for RoadRailer. We are in the process of monetizing that and let us see if that comes on to reality in the current quarter which we are looking at. Once that goes, substantially un-allocatable expenditure could get eliminated, and we should see the improvement in margins plus the new, what I can say, forging plant that we have commissioned will start getting the margins improved in three other segments, including compression segment and the overall margins would then go over to 18% in coming years. It can't happen in one year for sure, but our direction is getting it towards 18% for the Company.

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

Darshil: Sir, most of my questions are answered, I am relatively new to the Company, so I just had one basic question. So, as we said, your package delay could shift a lot of our revenues, so in case we just keep compressor ready, and then we have not been able to ship it, so the revenue gets postponed to the next quarter, but our costs have already been incurred, so will that give us a profitable that will give us a margin accretion, is that right understanding?

Suhas Kolhatkar : To some extent, yes, the fixed cost would get booked anyway on the time scale. The variable cost will go as per the sale, so if the revenue is shifted, the variable cost also will get shifted to the subsequent period, but a fixed cost which remains more or less same would have a larger base in the subsequent year to absorb or to post a better margin. If just to answer your question differently, our fixed cost is say X and we have done Rs. 525 odd Crores in the first half and we are hoping to cross more than Rs. 800 Crores since the executable order board is there for the second half, obviously on the same fixed cost, our margins will be better.

Darshil: And sir, the order that we said we got delayed in September, we have already done it in October around Rs. 60 Crores that we were speaking about?

Suhas Kolhatkar : That has gone in the month of October.

Moderator: Thank you. The next question is from the line of Ashish Gupta from CG Capital. Please go ahead.

Ashish Gupta: Sir, I just wanted to ask your guidance in terms of the next 3 years - 5 years, what could be our aspirational growth target, sir and what would be the key growth drivers from a macro perspective if you could help with that?

K. Srinivasan: I think it is a good question because I still do a lot of work with the capital goods sector. So, let me tell you that this sector would see, in spite of all that you hear around the world, it will see tremendous growth and the reason why this sector will see growth in spite of what is happening around this, is largely going to be dependent on domestic growth. The capital goods sector itself is today about half and half, half is domestically made, half is imported. You will find an increasingly higher percentage of activity being done locally and that will ensure that there is a growth, irrespective of the global economy. So, this is the first important thing that we should accept in this sector. This is going to be driven by multiple levels, the larger project driven growth will happen by big capex spend, but also there is going to be the mid size and lower level companies where you would see growth coming from industries which are primarily with the MSMEs who feed into the utilities and regular requirements of companies, be it an auto component, be it for other things and they all need compressors and other things, so that sector also will continue to grow in a steady pace. We believe the next 3 years - 4 years we will see an accelerated growth for the entire capital goods sector, and we are in one of those nice sweet spots where we can and we can aspire to grow consistently double-digit plus for year-on-year for the next 3 years to 5 years without any kind of a hiccup. Don't judge us by the first 2 quarters, we will come back.

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

Dhavan Shah: Sir, my question is on the gas side, I think in the last concall we mentioned that we are expecting roughly 250 gas packages plus the same amount for the booster for FY24, so what will be the revised number for it?

K. Srinivasan: We are not very clear about what the Government is going to force it on, but I think the numbers eventually will catch up. I think I mentioned in another context, the CGD companies will go through a phase of consolidation, and with that there will be an acceleration and implementation of all these gas projects, and it will come back because the overall guidance was saying that 12% of the energy basket must shift to gas, would remain. So, I think they may have an added thing into it of hythane which is 18% hydrogen being added to the natural gas, but eventually the gas pipelines have to come and I think that guidance will not change, it will remain.

Dhavan Shah: But for FY24, I think for the first half, how many gas packages we did and booster, I think for the full year, I think you mentioned the guidance were roughly 120 to 150 packages earlier, right, so the per booster revenue is roughly Rs. 30 Lakhs, so it gives you roughly Rs. 35 Crores - Rs. 40 Crores kind of revenue from the booster side and how many gas packages we did for the first half?

K. Srinivasan: Roughly about 50-odd packages.

Dhavan Shah: What is the order book from the gas packages at this moment?

K. Srinivasan: We have roughly about Rs. 80 odd Crores of orders, so what I keep saying is, yes, the numbers would be more or less in line with what we expect for the year, but the values are going to be significantly lower because the significant part of it would end up as booster. So, look at it from the Government's point of view, they would have said that they want x number of coverage, and they will get that. They would have been covered by boosters rather than the CNG packages.

Dhavan Shah: So, first half 40 packages and one package is roughly Rs. 1.2 Crores, net-net we did roughly Rs. 50 odd Crores revenue from the gas packages in the first half, right?

K. Srinivasan: Yes, about.

Dhavan Shah: And this Rs. 80 odd Crores order backlogs from the gas package will be executable in the second-half itself?

K. Srinivasan: Yes, all of them will go into the second half.

Dhavan Shah: So, roughly we can do Rs. 120 Crores - Rs. 130 Crores from the gas packages?

Suhas Kolhatkar : Well, in fact it could be a little more because the order flow generally starts in the second-half and the execution cycle is very small. We don't give a long execution time for the gas compression package to get supplied. Our problem in the first half was that we were ready with the packages, but there were no clearances from the CGD companies which they had already ordered.

Dhavan Shah: So, roughly, I think let us assume that gas packages would be Rs. 150 odd Crores plus Rs. 40 Crores boosters, so roughly Rs. 190 Crores from both of these two and the export business would do roughly Rs. 70 odd Crores this year?

Suhas Kolhatkar: You can do your calculations for the gas. Export business could be about Rs. 70 Crores.

Dhavan Shah: And is there anything else apart from these three in the gas compressor side?

Suhas Kolhatkar: We have a gas system packages that we supply and there are very large inquiries in the pipelines and the finalization promo in CGD.

Dhavan Shah: And how much revenue we did for that particular gas business in the first half?

Suhas Kolhatkar: I think we did about 45% of our total business from the gas business, for your calculation or if you are talking about Rs. 50 odd Crores from the CNG, rest is from the gas packages.

Dhavan Shah: So, roughly Rs. 160 odd Crore is from gas packages.

K. Srinivasan: Yes.

Dhavan Shah: So, we can do roughly Rs. 560 - Rs. 570-Rs. 600 Crores from the gas business and in terms of the air compressor and the ref gas, how is the order book segregation between these two and what is the execution cycle?

K. Srinivasan: I think on the execution cycle we mentioned that packages go anywhere between 8 months to 16 months. The large packages what we have now taken are all up to 12 months to 14 months plus and the equipment we can do anywhere between 3 months to 4 months. So, I think they will remain, and I think we must go through more of these break up quarter by quarter because the general guidance still remains about 40%-45% is on gas business, 30% on refrigeration and about 20% on the air compressor business. I think the split keeps moving quarter-on-quarter and it would not be very accurate to say this is what will happen.

Moderator: The next question is from the line of Dhimant Shah from ITI Mutual Fund. Please go ahead.

Dhimant Shah: Just two questions, the first question would be by construct now, do you see as things pan out today? What would be the product to project kind of division as we move forward, so would it be two-third, one-third kind of construct?

Suhas Kolhatkar: I mentioned 50:50 roughly.

Dhimant Shah: But this was expected as we get this entry and the screw and so this was supposed to go down, so?

Suhas Kolhatkar: If you recall, we were always higher in the package close to about 60%, less in products with the Centri. going up, with other compressors going up, with refrigeration compressors going up, it is definitely the share of packages has come down, our projects have come down from 60% to about 50%.

Dhimant Shah: Yes, but in ensuing quarters, will this settle, say next year around same time, can they settle at 60%-40% kind of?

Suhas Kolhatkar : It all depends upon what sort of order booking takes place, how the ONGC orders gets finalized, which are the major orders in the pipeline and the execution time. So, you can't necessarily judge it from the order book that you have, but it all depends upon how the spread of the order book is for the execution, so maybe we can update you quarter-on-quarter.

Dhimant Shah: Second question is, given that there is some amount of drag, do you think at what stage will spares be upwards of certain percentage, which will be more helpful to the current construct of margin, margins have been reasonably okay, so?

K. Srinivasan: We have always been saying that our spares and service combined is about 15% and we remain there; unlike companies which have a significant amount of sales coming out of the imports and they have to sell the base equipment at a lower margin and then they make more on the spares. In Kirloskar Pneumatic Company Limited, we have kept the standard pricing in such a way that there is no big difference in margins. Yes, overall compression segment margin is higher than the overall company margin, but beyond that, I think we have by and large been around the same 15% spares and service. Service makes a little low margin, spares make a little high, but the combined 15% makes the same margin as the compression segment.

Moderator: Thank you. We take that as the last question and now I would like to hand the conference to the management for the closing comments.

K. Srinivasan: So, to all of you, thank you very much for taking time to be with us. I know there has been a level of disappointment at the numbers for the first two quarters, we hope that we would all be in a happier state of mind when we come and speak in Q3. Things overall look good and I think we should get there. Thank you.

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

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