"Kirloskar Pneumatic Company Limited
Q1 FY2022 Results Earnings Call"

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ANALYST:	**MR. DHIRENDRA TIWARI – ANTIQUE STOCK BROKING LIMITED**
MANAGEMENT:	**MR. K. SRINIVASAN – MANAGING DIRECTOR - KIRLOSKAR PNEUMATIC COMPANY LIMITED** **MR. SUHAS KOLHATKAR – CHIEF FINANCIAL OFFICER- KIRLOSKAR PNEUMATIC COMPANY LIMITED** **MR. JITENDRA SHAH – COMPANY SECRETARY - KIRLOSKAR PNEUMATIC COMPANY LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Kirloskar Pneumatic Company Limited Q1 FY2022 results earnings call hosted by Antique Stock Broking Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" 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 Limited. Thank you and over to you, Sir!

Dhirendra Tiwari: Thank you very much. Good afternoon ladies and gentlemen. On behalf of Antique Stock Broking, we have joined here for 1Q FY2022 post results conference call of Kirloskar Pneumatic Company. I am glad to have with us today Mr. K. Srinivasan – Managing Director and Mr. Suhas Kolhatkar – CFO of the company. Now I would request Mr. Srinivasan to present his initial remarks following which we can begin Q&A. Mr. Srinivasan over to you.

K. Srinivasan: Thank you Dhirendra and good evening to all of you. Let me at the outset request our Company Secretary, Mr. Jitendra Shah to read out the cautionary note.

Jitendra Shah: Thank you Sir. Good evening to everyone. The discussion on the financial results and the presentation uploaded on the website during the earnings call may contain statements relating to future business development and economy performance, that could constitute forward looking statements. While these forward-looking statements represent the company's judgement and future expectation, a number of factors could cause actual development and result to differ materially from expectation. 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 risks associated with the company and also the effectiveness of the measures been taken by the company in tackling them as indicated during the discussions. Thank you.

K. Srinivasan: Thank you Jitendra. Once again good evening to all of you. Let me at the outset wish you all good health. I hope all of you are doubly vaccinated and staying doubly safe. I know we have all gone through difficult times, but I think it is good to be safe.

From the company's point of view, Q1 was real challenge. We had over 150 of our employees and associates getting infected then they recovered. Except three of them who succumbed to the pandemic, all others were fine. There was near collapse in supply chain with all of the fabrication was stopped on account of ban on the use of oxygen for industrial purpose. This affected the company and its vendors significantly yet in all these adverse pieces, the company is reasonably well in harnessing its resources to meet the critical requirement of oxygen compressors.

We worked closely with DRDO and other government bodies to standardize the PSA package for distributed oxygen generation at various hospital sites. Our plug and play, ready to use compression packages made it easy for installing and to use in remote locations by relatively untrained technicians. We supplied over 150 compressors in Q1 for air separation plants for making oxygen from the PSA route. We also had full supply over to hundred of them in July, so this has been an ongoing effort, and this will continue right through Q2 and beyond as demand is still very strong and coming in not only from India and from overseas customers as well.

In all these, the investment that we had made for having an in-house design capability which we have been working for some time with City University and for manufacture of new burgeoning screws made it possible for us to dramatically scale up and customize this solution to meet the urgent requirements that came up.

In the gas and refrigeration space, our order inflow was reasonably strong. However, because of challenges with inspection as well as to ship it to places where the site work was not ready, quite a few of these packages were delayed. We expect most of them could get shipped out in Q2 and Q3.

The sales for the quarter was 169 Crores as compared to 80 Crores of previous year, considering the Q1 in both years was a challenge and the challenge was of very different kind.In Q1 of the previous year, we had the lockdown but infection within the factory was minimal, we hardly had about seven cases. Whereas Q1 of this year, the infections were a record high but there was not a complete lockdown, so we had a very different kind of challenges in both the years, yet in all the company did reasonably well to deliver a good performance particularly in the air compressor product line of the compression segment. As we had indicated in the earlier calls, the transmission segment was largely refocused with in-house demand of gears for the compressors both for the centrifugal for which we started doing the high-speed gear boxes as well of the new burgeoning screw compressors which have been taking off tremendously in Q1 and hopefully going through to Q2 and beyond; however, we continue to take orders for the high-speed gearboxes which we have specialized particularly up to 50-megawatt power generation and this business we will continue to do.Since the total business in this segment is below 5%, we will no longer treat this as a reporting segment.

The RoadRailer business was nearly in a shutdown condition for the first two and a half months primarily because Delhi was seriously impacted with the pandemic. Though we did have sufficient loads coming in from Chennai, we could not run empty rail packs. So we had to curtail services for the first two and a half months. As we speak July was a bit of a strong comeback, more importantly the Railways have put out a draft policy for intermodal transport that bodes well for this business as it seeks to create a new and more efficient category of seamless long distance, end-to-end haulage of goods. We expect this inter modal transport opening up will be a great opportunity for all logistic players particularly in the current scenario where fuel prices have gone up tremendously. Our company expects that we will come back strongly in the remaining part of the year, and we will see a strong revival of demand for intermodal transport.

The order bank remains very strong over a 1,000 Crores on August 1, 2021 compared to 868 Crores that we had in the previous year.

The company's capex plan is also on track, we have not held back on this. We have committed up to 20 Crores of the 50 Crores that we have committed for the year.

We had good working capital management and my colleague, Suhas will discuss this in further details but to mention this to point out that we had a free cash generation of 54 Crores in Q1 which means the quality of business was very good.

Now let me quickly touch upon the key product lines in our compression business.

One first thing, I would like to call out is that KPCL historically is a project-based company with significant part of our sales coming from projects. Product sales are a lower category generally but that flipped around in Q1. The Air compressor business with its fully established screw compressors with in-house design screws and made in Hadapsar, the screw business took off significantly during this quarter. We now have probably the best-in-class design and a best-in-class product out there in the market which is suitable ideally for the various Indian requirements. Our packaged screw with a dryer, oil separator, and an on-board IoT has made it preferred choice for oxygen PSA plant across the country. This business is scaling up and the demand is going up not only from the domestic market but also from our overseas customer.

The reciprocating compressor business also continues to perform well. This is the forte as a KPCL company and there is a strong demand coming in from both air separation plants for oxygen as well as from steel plants. A notable development during the quarter was the development and delivery of a compressors system for the methanol to coal project, this again is Niti Aayog sponsored project and likely to scale up over the period of next couple of quarters.

The refrigeration compressor and systems business had a fairly muted quarter. The product lines were good but however the projects were not taken up since the site work was not ready in the various geographies. As you are aware, project business is a significant part of this space. We expect to complete most of these projects during Q3 and Q4.

The cold chain ice plants compressor sales picked up and we also see certain local moves to use these cold chain plants for vaccine storage, so we expect this to take up strongly going forward. The requirement of vapor absorption chiller also grew with a pharma companies doing well. There is a strong order inflow and we had higher than normal sales in Q1 but there is significant order inflow for Q2 and Q3.

Export however remained muted. The enquiries are still strong. We are yet to finalize some of the major enquiries during Q1 but as we speak, we have seen more projects getting finalized during Q2, Q3 and hopefully execution will come up during Q4 and in the next year.

Process gas compression systems, the demand for CNG compressors had been increasing with a City Gas Distribution companies scaling up their inflation plants; however, commissioning of these CNG packages were all delayed during Q1 as pipes were not ready and installations were postponed to Q2 and Q3. We still believe that this business will see new height from Q2 onwards. As can be expected from our company, we operated all the installed and commissioned CNG packages 24/7 right through the second wave and with our teams across the 15 states. This is our deliverable that we are proud of, and this is our forte.

Like refrigeration projects, work-in-progress for building packages for gas systems also were delayed due to site work not been ready and we hope that Q3 and Q4 will have significant sales happening in these projects this year. As we mentioned, we had a significant order book, and these projects will definitely be completed in Q3, Q4.

Now a quick look at the outlook for Q2 and beyond. The strong order book and with several projects coming on stream, hopefully we will meet both the top and bottomline expectations in Q2 and beyond. We still remain very bullish of doing our numbers for the whole year. We will update the position during the course of the next quarter. On a longer-term basis, we remain committed to our aspirational target of being a 2,000 Crores plus company in the next three years.

Now, I will request Suhas Kolhatkar, CFO to take you through the financials. Thank you once again.

Suhas Kolhatkar: Thank you, Good evening ladies and gentlemen. I am sure you; your relatives and colleagues are taking adequate care to ensure good health in this period of pandemic. Most of you either must have completed or on the verge of completion both doses of vaccination to get sufficient protection from the effect of this pandemic.

Coming to the company's results, I am sure by now you must have gone through the results which we posted on the BSE Website after the yesterday's Board meeting and the presentation that we have uploaded on the company's website. However, for the benefit of those who probably did not get a chance to have a look at those results let me now quickly summarize Q1 financial performance.

Apart from the sales of other usual products, supply of screw and reciprocating compressors for generation of oxygen to treat the COVID-19 affected patients contributed to the topline growth in Q1. This trend will continue as Mr. Srinivasan said in Q2 and beyond.

While figures of the corresponding quarter of the previous year are not directly comparable, results achieved during the current quarter despite constraints of supply chain disruptions and affected workforce are noteworthy.

Having tracked and analyzed the company's performance during the earlier years, most of you are also familiar that the company's quarter-on-quarter performance gets influenced by the mix of products and projects. Most of the projects do get executed in Q3 and Q4 of any fiscal and as such comparison of results with the previous quarter may not be an appropriate on each front.

On this background, I would like to present Q1 results of the current fiscal.

As Mr. Srinivasan said topline registered a growth of over a 100% as sales for the quarter rose to 169 Crores compared to 80 Crores in the corresponding quarter of the previous year.

Material cost was 52% as the product mix was significantly different than the previous year; however, we believe that this represents a healthy ratio for the Engineering Industry.

During the quarter, the company rewarded its employees who showed exemplary support during the previous year affected by pandemic. Increments and promotions were given to all deserving employees. As a result, employee cost rose to 32 Crores compared to 27 Crores of the previous year.

You would recall that the company had availed a loan of Rs. 40 Crores in the last quarter of the previous year as an abundant precaution to take care of any financial need just in case it arises due to COVID-19 disruptions. Finance cost therefore is higher at Rs.69 lakhs compared to Rs.13 lakhs in the previous year. We will take appropriate decision to either repay or continue with a said borrowing after Q2 results, considering the money market situation and the financial needs for the second half of the current fiscal.

At this juncture, I would like to state that company has a net cash position of over 220 Crores as on July 1, 2021.

Depreciation is in line with previous year and additions to assets, as MD briefly mentioned, that we have plans of capex for the current year of about 50 Crores particularly to support our growth and over Rs. 20 Crores have been committed so far in this connection. Consequently, there will be some impact on depreciation in the coming quarters depending upon the capitalization.

Other expenses are as you are all aware mix of fixed and variable cost and are quite comparable with the trends of the previous years. They stood at 19% compared to 18% of full FY 2021. There is no significant variation in the level of expenditure and the cost controls exercised by the company in the previous year continue in the current year as well.

As a result, EBITDA improved to 11.6% in Q1 compared to just 1.9% of Q1 of previous year. With the topline growth coming in the subsequent quarters by execution of the projects, we believe that the annual EBITDA will further improve. At this stage, I would also like to just put it on record that if you analyze our EBITDA trends of Q1 of the earlier years, there has been a significant improvement in the EBITDA to 11.5% compared to about 6.3% in FY2020. It was barely 1.8% in FY2021 and 4.7% of FY2019.

PBT was at 5.7% of sales which showed a significant swing from the previous year recording 18 Crores growth over the corresponding quarter of the previous year.

PAT as a result was at 4.1% which showed a growth of about 12.5 Crores over the previous year. It was just 1.5% in FY2019 and 1.9% in FY2020.

Company issued about 79,500 equity shares during the quarter under its employee's stock options program. Consequently, paid up share capital increase to 12.87 Crores compared to 12.85 Crores at the beginning of the year.

Non-annualized EPS improved to Rs. 1.1 per Rs.2 paid up share which is 55%, compared to a loss of 88 paisa per share of the corresponding quarter of the previous year.

In terms of investment, company's non-current investments resulted in net unrealized gain of Rs.21.4 Crores and that gets represented in OCI.

With over 95% of the revenue coming from the compression segment, this 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 15.16% or 15.2% for the quarter as compared to full year of about 17.8%-17.9%.

To support execution of a strong order board, company has built adequate inventory considering its execution schedule. Despite this strong inventory level, our suppliers outstanding has been brought down significantly to 117 Crores compared to about 150 Crores. This represents just 74 days outstanding vis-à-vis 102 days outstanding. We have been supporting to our suppliers both in MSMEs and other sectors while we are building our resources for the growth in the future.

This was possible through a receivable management which has been working satisfactory with a reduction of over 100 Crores in Q1 alone. Receivables have been bought down to just 82 days compared to about 135 days.

With the new order bookings during the quarter, the flow of the advances has also been improving. As a result the networking capital was reduced by over 40 Crores and cash reserves improved by about 54 Crores in Q1.

Capital employed in the compression segment has also been reduced by almost 45 Crores compared to the opening level that we had at the beginning of the year.

During this quarter about 45% business, which you all want to always know what is the product sale and a project sale, so about 45% business was from projects as against average 60% which has been the trend in earlier years.

Post approval of dividend by the shareholders in the AGM held on July 20, 2021 company has paid the dividend on August 3, 2021 to all eligible shareholders as on record date.

While these are the results which shows much improved trend than the previous year a cautionary statement that I would like to put in here that with more product sales in Q1, company could pass on the impact of commodity price increase to the market, which may or may not be possible to do so in the coming quarters as the sales from projects will pick up which are generally at fixed price. This may see some impact on margins in the coming quarters. However, we are committed to ensure that our overall margins for the year are very much in line with expectations of our stake holders.

So, this was a brief on the company's performance from my side. We will be happy to answer any questions on the Q1 results. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kagalkar: Thanks for the excessive brief, the initial opening results etc.. The two things here, one is you are saying that the order book now looks strong and second is the target of 2,000 Crores revenue in the next three years usually, so can you quantify the order book and which areas you feel the order book will be very strong for next 18 months to 24 months now because you have 2000 Crores targets now?

K. Srinivasan: We mentioned that we have an order bank of over a 1,000 Crores as on August 1 and broadly the split that we always been saying is that roughly about 45% order is from the gas business, roughly about 20% to 25% of it is coming from the air compression business and the same is coming from the refrigeration business. TRM or the transmission and the RoadRailer all combined below 5% so roughly this business split that you will see, 45 above 25 in the other group.

Bhagyesh Kagalkar: Coming to the RoadRailer business, we have just one or two rakes operating eventually, now you have started reopening only one segment the transmission business all small along with RoadRailer, so what is the feature of the RoadRailer business now. It would take three years view 2,000 Crores revenue target, where does it fit in terms of revenues then in 2,000 Crores?

K. Srinivasan: I think we shared quite openly in the annual report as well as in the last call, the RoadRailer of business today, we are carrying across the load, we are the only people using this intermodal transport as means of technology demonstrators for the Indian Railway and for the logistic companies to see this as a means of efficient and intermodal transport of valuable goods. Our longer-term interest is to be the road railway manufacturer and not to run the transport as a complete business. This is work-in-progress. We would have to transmission it as more and more players come into take on this intermodal transport as a means of conveying long term haulage.

Bhagyesh Kagalkar: In that context, what are the kinds of order initial enquiries that you are witnessing in the RoadRailer because you want to manufacture and sell it essentially?

K. Srinivasan: Today, we are the only one making and running it. We run roughly about 135 RoadRailers between the two ends between Chennai and Delhi that is the number of railers we run, they are formed in trains and moved up and down. In a good year, we will run about 1,800 of them up and down. That is in terms of RoadRailer itself. Now we will have to see how this develops unless we have more people taking it up railways opens up more routes, this is now a proof-of-concept kind of a job. The railways are efficient; they are running up and down. Toady we have an unusual condition where some high-end, high value customers who are bringing in products into Chennai are even paying for the empty rails to come back from Delhi because this is valuable to them. These goods are very inefficient if they are transported by road, one is because of safety considerations in terms of theft pilferage, etc., so this is a very proven and valuable intermodal transport. We have to have the patience to see through this next phase.

Bhagyesh Kagalkar: Thanks Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Pritesh Chhedha from Lucky Investment Managers. Please go ahead.

Pritesh Chhedha: Congratulations for a good set of numbers. My first question is compressor for oxygen, what kind of business you will do this year and I am guessing it is largely one of business which is flowing, this year it would quantify most likely what you are going to do. My second question is we are at about 1000 Crores of backlog, I think you are running at about 700 Crores – 800 Crores of backlog last year and for many years before that let us say for two years to three years, so is it fair to assume that you will easily surpass 1000 Crores order revenue in the current fiscal year and my third question is on a gas compressor side, what is the size of business today for us and what is expected for let us say next couple of years?

K. Srinivasan: First let me take your first question in terms of oxygen compressors. I would put it like this, the distributor generation of oxygen at hospitals through PSA plant is across that there is to stay, our general feeling is that this is not something that is going to go away with the pandemic, this would become an operating minimum requirement for hospitals going forward and this is not just in India, it is becoming something prevalent even outside India. So I would urge you to look at couple of YouTube videos on oxygen challenge on the subject. This is something what we believe would be something similar to what we have as standby generators most commercial establishments, offices etc., they do not run 24 hours but then the power goes off, you need it to run, same is going to be true with the PSA oxygen generators, so we are talking of this is in some form would stay on and grow initially but stay on at a particular level on an ongoing basis. Having said it, we have specialized and packaged that well that we participate with the PSA package builders and so we really believe that this is a business which will dramatically scale up but stay at a particular level on an ongoing basis of even beyond, so that is the way we are looking at it. I do not want to give you the exact number of compressors that we are putting out on this year. As of now we have a huge quantity of this to do and we hope to deliver as many as possible. I briefly say that we are a very high market share player on the larger capacity packages where we are talking about 100 beds and beyond, we have a leadership position and the smaller one there are smaller players as well. So, short answer for the oxygen compressor business is there would be rapid scale up and then an ongoing business beyond that. It is not going away.

Pritesh Chhedha: Sir, just before that I was actually not looking at the quantity volume to be sold but will be Rs.150 Crores – Rs.200 Crores, business type size?

K. Srinivasan: If you are looking at the opportunity it is much bigger than that. Our share would be in the range of what you mentioned. Now the second question you asked is in terms of revenue predictions. Our objective of what you mentioned of Rs.2000 Crores is out there and we hope to do that.

Pritesh Chhedha: My last question, the third question?

K. Srinivasan: Your third question is on the CNG compression business and its share, we have said it in the beginning and we have said it before that our gas compression business is the mother business of the company where we have a dominant position in the market because we have a unique advantage of completely doing everything ourselves, we do our APIs, compliance, reciprocating compressors, we do the packaging, we do the installation, we do the service and we do the ongoing upkeep and maintenance work at the site as well and this at the CNG package levels. We are also fairly strong player at the midstream and upstream packages as well. Here we offer is with the aerial reciprocating compressors. So, we are very dominant in this space. This allows 40% to 45% of our total turnover and it will continue to be at that level or even get stronger. So this is not going down with all the new city gas distribution lines being auctioned and taken up this will only grow further. That is as far as the gas compression business is concerned. There is one stage that we did not mentioned so far but we have been working strongly on it and that is the booster compressor for the daughter stations, we hope that we will also be able to come up with something just going forward.

Pritesh Chhedha: Actually, my question was on CNG within that, so I wanted to know the size of the CNG business and what is the scale because bulk of your growth is within gas compression is going to confront CNG?

Suhas Kolhatkar: See, size of the CNG business if you look at you can very well predict from the 9th and 10th rounds of GA allocations which has happened for city gas distribution. So, if you look at the 9th and 10th rounds have given something close to 8,000 compressors requirements both in terms of main mother stations as well as the daughter booster station what Mr. Srinivasan just now indicated where we do not have a presence as of now. So, as a combination and we will be working for such types of opportunities as well and the combination about 8,000 compressors would mean 50:50 percent between mother stations and daughter booster stations would add something like Rs.6000 Crores of revenue opportunity during the next seven year to eight years, because the number of compressors that the government expects this city gas distribution companies to deliver are indicated in that results of the 9th and 10th round and because of the pandemic 11th round has still not come up which would also see some future demands. You would also find that about 70% - 75% of the area has been covered with the 10th round of city gas distribution if go to PNGRB website you will find this.

Pritesh Chhedha: I have the map, I just wanted to know what is the size of that business that you have today?

Suhas Kolhatkar: I have indicated to you about Rs.6000 Crores that is the opportunity.

Pritesh Chhedha: Okay, I will take that separately sir. Lastly, Sir as the revenue scales up and there is a fair bit of cost management that we see, the current assets what kind of revenue potential those have on the max side and does it mean that margins from what we are reporting today with the revenue scale up have a substantial scope for improvement?

K. Srinivasan: Yes, it will because we will have to look at it that this is not a very capital intensive business. We had demonstrated during the last quarter of last year that we could do about a Rs.400 Crores of sale in a quarter which we really said that the current installed capacity potentially could give us anywhere between Rs.1,200 Crores and Rs.1,600 Crores of sales depending on the product mix and we are making further investments to get this capacity up. So, this not a very capital intensive business it is more of a capability intensive trend. We have been going ahead and making additional investments and that would not be a constraint for achieving these numbers.

Pritesh Chhedha: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Arihant Capital. Please go ahead.

Abhishek Jain: Sir, thank you for taking my questions. Sir, we are talking about Rs.2000 Crores opportunity what kind of margins we are going to see at that level, if you can throw some light on the same right now?

Suhas Kolhatkar: Yes, Abhishek this is a very tricky question and future looking statement which I cannot make it but if you look at our EBITDA margins of the past, we have been able to get close to about 15% to 16% and the compression segment has been recording about 18% to 19%. So, surely as the turnover goes up the margins will improve because the fixed cost will get amortized over a larger portion of the sales. So, surely our margins will improve as the turnover grows.

Abhishek Jain: What would be the capex numbers for next two years?

Suhas Kolhatkar: We estimate roughly in the same range about Rs.30 Crores to Rs.40 Crores going forward.

Abhishek Jain: Per annum?

Suhas Kolhatkar: Yes, more or less.

Abhishek Jain: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Anmol Grover from Albatross Capital. Please go ahead.

Anmol Grover: Good evening everyone. Thank you for the opportunity. Sir, my question is that on the export opportunity, where does it fit in your Rs.2000 Crores vision that you have given?

Suhas Kolhatkar: Can you repeat please it was not audible or you were not audible?

Anmol Grover: Sir, my question is on the export opportunity. So, where does it fit in your Rs.2000 Crores vision statement that you gave? That is my first question.

K. Srinivasan: Export will be an important part of our growth. We have taken a target to first take it up to at least 10%. You must look at this industry largely out of India has been exporting products and that is on a price position. We are more of a project exporter consequently the initial break in into a market and to establish what we call as a proven track record becomes hugely important. So, it will be a F-curve, you will see a lot of efforts small orders during, we had last year roughly an export of about Rs.50 Crores. This year we should probably do significantly more than that and going forward it will scale up faster. So, our export would be driven by project export which means product plus application plus establishment and upkeep and maintenance. So, it is going to be a little more different compared to what others have been doing in this space and to that extent it will be an F-curve.

Anmol Grover: My second question is on the order book, so I know you already gave some light on the margin profile, but I was hoping if you could anyway quantify the current margin profile of the order book?

K. Srinivasan: We already said that our order bank as of August 1 is over a Rs.1000 Crores and it continues to be that even as we talk to you today and we should take a weighted average EBITDA margin because it is a competitive business, and it is in our interest to see that we talk of an overall margin rather than a specific product group wise margins.

Anmol Grover: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Kunal Seth from Batlivala & Karani Securities. Please go ahead.

Kunal Seth: Good evening and thank you for the opportunity. Sir, my question is pertaining to some of the new product introductions that we were working on especially on the screw compressor side, if you can give us some update on how are they coming along and what are the client feedbacks on the same?

K. Srinivasan: The first screw compressor is out there and scaled up dramatically that is what is driving the oxygen compressor business and clearly it is best in class product. Now, we are having couple of more of them coming out in different areas largely for water well drilling, mining and the whole lot of new areas it is coming out and a lot of them have passed the Alfa testing, internal testing and now we are trying to scale them up. So, there are couple of other businesses in screw which is really on the refrigeration stage which will be in between our current receipts and the Howden compressor which we offer for the large packages, this also should be hopefully out by the last quarter. Again, that is the big opportunity out there for the food processing, pharma and others, so quite a few new products are hitting the market. So, you will hear about them and you will see them reflecting on the numbers as well.

Kunal Seth: Sir, with this slew of new products that will hit the market, will we still have any white spaces or with this we will have covered most of the market?

K. Srinivasan: There are quite a few white spaces like we mentioned earlier the daughter station, hydro boosters or something that we will have to come with the market hopefully by the last quarter or the first quarter of next year that is the big white space out there as 4000 compressors in the next eight years for the Indian market alone. Then of course there are lot of new things that will develop, I mean we have look at the diaphragm compressors that could come up for the hydrogen compression requirements so that we are working on development of a biogas compressor for dirty gas compression. So, there are a lot of activity happening. As the economy moves from solid to liquid to gaseous fuel in many ways be it from natural gas or biogas or hydrogen, compression as a means of energy transportation storage will become more and more important. This is a valuable space to be in and we saw the benefit of it or the lack of having it when we had this big oxygen crisis that all hit us all in the last quarter. So, we are in a very gas based economy as I would call it. So, we have to get more comfortable handling different technologies and different things as they develop.

Kunal Seth: Sir compressors for this daughter station I am assuming that we have the technology and so basically it is just getting those product to the market, right technologically we are well equipped to handle that?

K. Srinivasan: Yes, the basic technologies are available but in any of these products we have to be competitive in an environment that we operate. If you look at the CNG packages of a smaller size of Rs.1 Crore plus a package we are talking here of Rs. 40 lakhs plus, these are much more competitive, smaller ones, it needs certain amount of valued engineering and putting together that has to be done to occupy this space we are working on it and we hope to have a competitive product out there soon.

Kunal Seth: Sure, and my last question is pertaining to the CNG compressor pipes that we have who are all the competitors in those market sir and is it a very competitive market or we have large market share there?

K. Srinivasan: Every market is a competitive market. The CNG packages today are largely, it is largely almost the 80% plus is the bipolar market between us and another friend of ours in Pune but rather there are always smaller players out of Delhi and other places. So, the more the merrier, I mean we compete based on our deliverables, we compete bases on our reliability of product and the overall system support that we provide not only at the time of installation commissioning but also on an upkeep and an ongoing basis to run them throughout 24/7.

Kunal Seth: Thank you so much and best of luck for the future quarters, Sir

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

Nikhil: Congratulations on a good set of numbers. Sir, my question is, earlier you talked a lot on the CNG part and it is a big opportunity, I just want to understand what is the replacement kind of a business which you see, because once this Rs.6000 Crores of market opportunity over seven–eight years, do you see that it can sustain at a Rs.100 Crores–Rs.150 Crores as a regular run rate in future as replacement or just if you can help me understand how the replacement market would be for these products?

Suhas Kolhatkar: Yes, it should I mean any product has its life and as the eight years cycle will be completed there will be a replacement market available because there are first eight rounds of GA distribution which has happened and that way we have also supplied the compressors which will come for replacements and as they come for replacement the current cycle will also come for replacement.

Nikhil: Sir on a regular basis post this capex would you say that this will be a sustainable like Rs.400 Crores–Rs.500 Crores kind of a marketing with the replacement and all because a large part of capex driven market would be out of the market. So, that is where I am trying to understand?

Suhas Kolhatkar: We believe so that could be a business opportunity.

K. Srinivasan : We must put together in good part see today we are talking of gas being about 5% of our energy basket and is expected to go to about 15%. There is also an objective now that 15% of the natural gas must be replaced or added on by biogas. Now, the second stage is a biogas pumping also needs the CNG packages, so this is an evolving business like I said overall as we go more and more towards a gasified energy basket you will have opportunities of different kinds coming in. The compressor package may have to change and get better engineered or different but the opportunities will continue to grow there by the time we finish natural gas or biogas coming in and then we are looking hopefully at the hydrogen business as well going forward. So, there is going to be opportunity. There is going to be a combination of new capex, there is going to be a combination of replacements, there is going to be a combination upkeep and service support for all this which is something like an annuity business which also helps tremendously to keep the business running.

Nikhil: Secondly Sir on the booster segment just to the previous participant you mentioned that that is a very competitive market and the size is pretty small and in our earlier discussion we were not quite participating in the booster market would you say that the margin profile of the booster segment would be like dilutive to the overall company margin or do you think that segment can also provide similar margin profile as the mother station market?

K. Srinivasan: See like we said in the beginning this is going to be a more competitive low margin business but like everything else it is a bottom end of the pyramid, for us to not be present there was a choice that we said in the early days but we think it makes sense we present there as well because that actually allows other competitors to occupy this space and then nibble it us as the regular business as well. So, we will occupy this space, it will be a lower margin business but it is still a business that we have to be in.

Nikhil: Sir one more question, it is basically from our annual report. So, in our annual report we have mentioned that the air compressor market we believe the company is looking to scale up in this business but considering that product installation and the time line which we have spent with the installation plays a big role in terms of the customer accepting the product. Do you sense that we can get a faster scale up here or would you say that the scale up would be more gradual? Just to understand that how we should understand the scale up in this part of the business?

K. Srinivasan: The air compressor business we have shown the fastest growth in the first quarter and we expect that it will continue to grow in the remaining three quarters like we said last year it was approximately about 15% to 18% of our total sales, we are more likely to be around 25% of our total sales this year that means that is the piece that we are growing faster than the rest.

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

Moderator: Thank you. The next question is from the line of Anurag Patil from Roha Asset Management. Please go ahead.

Anurag Patil: Thank you for the opportunity. Sir, what will be our total investment in RoadRailer business till date?

Suhas Kolhatkar: About Rs.60 Crores.

Anurag Patil: Secondly in the transmission business, are you expecting to break even in FY2022 as a whole?

K. Srinivasan: Like we said just we have made it into now an internal resource largely meeting our requirement of the burgeoning air compressor business which is a screw compressor needing gears as well as a centrifugal. So, we would have to look at it as a part of assets being used for the other business but to answer a short question to your this thing, more or less it will no longer be a loss making division even if you have to look at separately.

Anurag Patil: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Thank you so much. Sir, I have two questions, first on Defence related sales, how do we see progress in near-term and going forward we are already executing our hydro-pneumatic system for battle tanks. So, how is it progressing that is the first question. Second question broadly as we aspire to have a Rs.2000 Crores, revenue in next three years, so how do we see the revenue mix at that point of time likely to be and does it factor any inorganic opportunity and also like this new product launches how do we see our addressable market growing particularly with launches in screw compressors and launch of centrifugal compressors?

K. Srinivasan: I will take it one at a time. Defence business I can only share the same ankh as the Army Chief's ankh yesterday, it takes a lot of effort, lot of patience, lot of time and it grows very slowly. So, we are doing our best in many of the products we are single supplier outside the government bodies and we still have to fight a battle to get this thing done but it is a good business that we will continue to be focused on, but it is not going to be a fast take off kind of a business. On the Rs.2000 Crores break up it will broadly remain the same that I mentioned roughly 40% to 45% on gas system, about 20% to 25% on the refrigeration and about 20% to 25% on the air compressors and all the rest at 5%. So, this is not going to change much because as we take up new projects and product we are also looking at the spaces where we would take, we would look at the competition intensity, we would look at the margin opportunities and we look at the capital intensity of these opportunities as well. So, we are broadly saying with the same split that is not going to change and there is enough headroom for growth even with all these. Inorganic, we will look at inorganic and this is something that it will only happen when it happens we were prepared even for the last quarter in terms of Suhas did mention that we were keeping some amount of reserves available if the opportunities were to come up. We are still prepared but it is something that we will not be able to talk till it happens. The spaces that we look for are three things; we look for opportunities where we have a value chain advantage, which means we have to look at something which will fill in into our basket of a current value chain, the products that we make. We will look at inorganic which allows us market opportunities and we will also look at inorganic where we get technology niches to take us into something which is a completely new space where we are not. So, we are scanning opportunities, but we are not sort of giving out any kind of bind mandate to anybody to hunt around, we are doing it as it happen basis. But what is our focus is really is on our internal processes in development, get our R&D, design and team working on a new launches which itself will take us to this Rs.2000 Crores numbers quite comfortably.

Manish Goyal: Just the point was that on addressable market currently like in air compressors we are addressing probably a very low product wise. So, just wondering that if you are probably aiming to achieve 20% - 25% which probably means Rs.500 Crores in a segment which is quite competitive among the existing players. I was just wondering that is it that we are looking overall market also to grow very strongly and then we are looking to get a very strong incremental market share going forward?

K. Srinivasan: There are two things happening, the market is growing, second is if you look at the competitive space in the business that you talked of there are only two players who has a comprehensive India built product and one of them operates on the principle of cost pricing strategy and we always operate on the principle of a complete solution strategy. So, there are two very different outlooks to it, so we will take opportunities which fits in our strategic pole positioning the rest of them are players where there are a part of somebody else's global strategy. They do not do everything themselves, they get a lot of it from elsewhere, they are important big players but that is where they are.

Manish Goyal: Thank you so much. Thanks a lot.

Moderator: Thank you. The next question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

Kamlesh Kotak: Thank you. Good evening, Sir. I just wanted to understand your Rs.1000 Crores plus order book break up, how much of that would be between government and private sector?

K. Srinivasan: That is a tough question, but I will answer it like this, the breakup has actually become more favourable to private sector than government than it used to be earlier. We are getting more private orders than government orders.

Kamlesh Kotak: Any ballpark range you can share, Sir?

K. Srinivasan: I would not do that Sir for good of the company and margins I think it is better to leave at there.

Kamlesh Kotak: Secondly, Sir because of the input price pressure that is being seen so will that be fixed price or the variable price contract how you see they will play out in the context of the prices that have been spiraling across the commodities. So, how that fixed price or variable how it works?

K. Srinivasan: Tender based, government tender orders and project orders are fixed price that does not change. Good news is that we are also executing a lot of short cycle orders for equipments where we can change prices pretty quickly and like I said private sector and others to be more responsive to our price increases. The other good news on the commodity cycle like you all are tracking, copper which is a surrogate for our motors and other things Futures is stable at 9300–9400 till end December so, the commodity price spiraling is now stabilized yet at a higher level, so I think that has given us some respite in terms of having to continuously wanting to correct price. So, I think we have seen a level of stability coming in as well.

Kamlesh Kotak: Sir just wanted to understand from the overall revenue standpoint, how much would be the after sales and the spares revenue of this or overall base our products revenue?

K. Srinivasan: Let me put it this way, it is a very important part of our business the spares, service and our R&D ongoing support that we provide is approximately about 15%. We do not have to get deeper than that, but I would leave it approximately at about 15%.

Kamlesh Kotak: Lastly Sir just to understand the tracking of the demand side, what is it that we have align it to correlate to, is it the Brownfield related capex or the Greenfield projects that we have to track, how our demand shapes up, from what kind of segments is it incremental capex, just want to understand which is the better way to track our business?

K. Srinivasan: I think it is a tough one. I will put it this way the gas business has to be tracked to the capex cycle of the gas that is pretty obvious, so the next at least three, four years that is what we track. The hydrocarbons, petrochemicals, pharma are all lead indicators for tracking the air conditioning refrigeration business. The industrial activity overall is a tracking for the air compressor business. So, generally it is good to track the industry IIT makes the industrial production is a good index track to the air compressor business.

Kamlesh Kotak: Sure, great sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Sunil Shah from Turtle Star PMS. Please go ahead.

Sunil Shah: Sir, I got all the questions answered. Just one understanding that I would seek from you, Sir, when we stated that we have a target of about Rs.2000 Crores of revenue in the next three years about 45% of that would be from the gas compressor business, is that a rough estimation on the peer lines?

K. Srinivasan: Yes, Sir.

Sunil Shah: So then that Rs.900 Crores we are talking about it has a potential to become Rs.6000 Crores once the entire rollout of city gas distribution is in place over the next seven years. So, that Rs.900 Crores can become Rs.6000 Crores, is this correct?

K. Srinivasan: Assuming that nobody else supplies because that is the total market.

Sunil Shah: Total and when you stated the market space you stated there is one more player from Pune and together between the two we have 80% market share?

K. Srinivasan: Let me go through it calmly. Rs.2000 Crores is the total size of the mother stations and the daughter station market of the 9th and 10th gas announcement that has been made, City Gas Distribution announcements. Now, that can happen over government says five years it can happen over eight to ten years that is the total size of that market. So, that is not going to happen every year, so it is over lets us say at least eight years, so we talk of Rs.6000 Crores being sold over eight years. So, that is the size per year you will have to look at and then that is shared between all the players in the market.

Sunil Shah: Right and Sir on the competition in terms of you and one more company from Pune is what you stated. So, between the two of you currently as of now the market share is about 80% is that the right understanding that I have?

K. Srinivasan: That is right, should be above 80%.

Sunil Shah: Above 80% between the two of you. Thanks Sir, thanks for all these questions and so the time.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Dhirendra Tiwari from Antique Stock Broking Limited, for closing comments.

Dhirendra Tiwari: Thank you operator, thank you Mr. Srinivasan and Mr. Kolhatkar for giving us the opportunity to host the call and you would like to add anything to have a final statement Sir?

K. Srinivasan: Thank you and the participants for joining in on this call. I know that we had a far more interacting comparative call going on from 4:30 which we too participated a bit. Thank you all for being here and listening to us.

Dhirendra Tiwari: Thank you very much. Now we can close the call. Thank you all the participants.

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