"Kirloskar Pneumatic Company Limited Q2 FY23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Kirloskar Pneumatic Company Limited Q2 FY23 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhirendra Tiwari. Thank you and over to you, sir.

Dhirendra Tiwari: Thank you very much. Good evening ladies and gentlemen. Welcome to 2Q FY23 Post Results Conference Call of Kirloskar Pneumatic Company Limited.

We are glad to have with us today the Managing Director of the Company – Mr. K. Srinivasan and CFO – Mr. Suhas Kolhatkar along with the Management Team.

We are very glad to note that company continues to post very strong performance and the same was shown in second quarter and we wish the management all the best for the future.

To start the conversation, we invite Mr. Srinivasan. Over to you, sir.

K. Srinivasan: So, first good evening to all of you. Let me at the outset ask my colleague, Jitendra Shah, to read out the disclaimer and then we will go to the call. Just a moment.

Jitendra Shah: Thank you, sir. Good evening to all. The discussion on the financial results during the earnings call may contain statements relating to future business developments and economic performance that could constitute forward-looking statements. While these forward-looking statements represent the company's 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 discussion. Thank you.

K. Srinivasan: Thank you, Jitendra. Once again good evening to all of you. Let me at the outset wish you all an advance Diwali Greetings, may the year, the festival of light bring you all joy, happiness and great success going forward. KPCL had a good Q2. Let me read out the numbers and the performance. H1 FY23 has so far been going to plan, sales could have been higher, but for the deferment of several CNG package dispatches and delays in export shipment, this seems to be happening most quarters nowadays, but hopefully things should stabilize. Most of this will now happen in Q3. The inflation in most inputs has cooled off and the availability has stabilized as well, albeit with the longer lead times. The general business environment looks stable. Sales in H1 were at Rs. 557 crores as compared to Rs. 395 crores for the previous year, a growth of over 43%. This is largely driven by project execution in oil and gas space both in the domestic and overseas market.

The profit before tax grew from Rs. 25.4 crores to Rs. 57.6 crores, a growth of 126%. All the businesses, air, refrigeration and gas were to plan. As you all know, a significant part of export comes from the gas business. Consequently, the business split has moved somewhat more towards gas during the first 6 months, but this will even out during the year. Export sales in the first half was at Rs. 86 crores. This is nearly 7 times what we had done in the whole year last year. We expect to do more than Rs. 150 crores in export for the full year. The continuing demand for oil and gas from the MENA region and our execution capabilities goes well for this business from this region and in this space.

The overall order bank was nearly at the same level as the last quarter and stood at above Rs. 1,200 crores. As you would recall, it was about Rs. 1,226 crores earlier. While several proposes are at different stages of finalization, we expect order booking to improve in the next 2 quarters in order that we have enough order bank to meet our growth aspirations for the next year. We have committed on a CAPEX spend of about Rs. 40 crores so far in H1 against the planned CAPEX of Rs. 55 crores for the year. We will complete the planned CAPEX and ensure that we have both the capacity and the capability to meet next year's budget. Though working capital management has been a challenge during this period, we have committed to bring the overall net working capital down at least to 18% which was what it was last year.

Let us now discuss the results of the product line.

The Air Compressor business introduced several new sales models for the screw compressors to address the niche market that we were not present like **_5.40 off the shelf stock and cell** compressors, production of reciprocating compressor packages, etc. The packages for reciprocating and centrifugal compressors, in metal plants, chemical industries, air separation plants continue to develop and grow and we continue to remain the preferred charge in these requirements.

Refrigeration Compressor Systems. In order to address the slowdown in the offtake of compressors for the cold chain and ice plants that we mentioned in Q1, we launched the renovate scheme which wherein the compressors could return their old compressors and get a new one at a net special price. This has become a hit with compressors as they could upgrade their machines economically. We have done significant business in this during the second quarter and we expect to do more in the third quarter in this. We have several major packages to deliver in the next half year and work on this is also in progress. We expect to finalize more orders in this space to keep the growth momentum both in the domestic and export market. The Khione Screw Compressor for refrigeration was showcased at the recent FoodPro at Chennai and this has garnered great interest with the users. We are introducing this in the market in a phased manner and this will allow us to make minor modification if required to meet specific requirements of the pharma, food processing and dairy industry. This will scale up in Q3 and Q4.

Process Gas Compression Systems. We dispatched yet another large package to the MENA region and as I speak, we have started also dispatching in Q3 these packages. In this case, the customer has moved this package that we dispatched to the site so quickly that our team was already there to supervise the selection and commissioning all within a quarter. That is just to show the kind of pace with which this business is growing in Middle East. In order to bring out the opportunity in this space for quick project execution, the current situation of burgeoning demand for hydrocarbons in the global market, we expect exports in this to cross Rs. 150 crores during the year.

The dispatch of CNG packages continues to languish on the back of reluctance of gas distribution companies to commit new capacities in the current context both in terms of additional gas availability and price. Clearly the situation is untenable and we expect that it would be addressed going forward, however, the investment in upstream, midstream and downstream path to this business remains strong and we continue to participate in this. There are several packages under finalization and this would allow us to keep the growth trajectory growing in this space. With the new investment in CNG distribution being in the condition that it is, we had deferred the formal launch of the hydro booster compressor. As you would recall, we had got this project approved, we had got this compressor tested and approved again and qualified through various requirements, but we have now decided to reposition it for the biogas market, though this is a significantly smaller market till the time that the CNG distribution picks up. The O&M services business continues as normal across India, though the current business condition brings its own challenges in terms of working capital management.

Outlook for Q3: The war in Europe and its consequence on the energy industry has a major impact on our business prospects and I must say, not all of this is adverse. We are presented with both new opportunities as well as new challenges. We continue to have strong order enquiries and this goes well for the future. We will benefit from the changing competitive landscape based on our design and execution capabilities particularly in this segment. We are confident that we will be able to maintain a growth momentum and remain committed to our aspirational target of being Rs. 2,000 crores company in the next 2 to 3 years.

I am going to now request Suhas to take you forward with the financial numbers and then we will take our questions. Thank you.

Suhas Kolhatkar: Thank you, sir. Good evening to all of you. At the outset, Season's Greetings to you all. Let me wish you all a very Happy Diwali with the healthy and wealthy New Year. I hope you were able to go through the results which we have posted on the BSE website yesterday after the conclusion of the board meeting. We have also uploaded a presentation on the trends of H1 results of our company on our 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 summarize the results for H1 of the current financial year.

Before I touch upon the various financial parameters, let me first broadly talk about some of the highlights of the period. The company during this half year achieved a couple of landmarks. The sales for the H1 as Mr. Srinivasan said were at Rs. 567 crores compared to Rs. 395 crores and these sales were highest so far for the company in H1. The company's exports were also at Rs. 86 crores and it has surpassed all our previous annual exports. We were around Rs. 20-Rs. 23 crores of exports annually. We have done about Rs. 86 crores as against Rs. 12 crores last year same period. This was mainly from the overseas oil and gas market. Profit before tax was above Rs. 57 crores with improvement in margins to 10.1% from 6.3% in H1 of FY22. The order board as on 1st October 22 stood at about Rs. 1,200 crores which is more or less at the same level of the last quarter.

I will now turn to the business results for Q2 and H1 ended 30th September 2022. Since for the quarter 2 we are higher than the previous quarter and corresponding quarter of the previous year, so there was a growth Y-o-Y and quarter-on-quarter. At Rs. 295 crores, it registered a growth of 8% over Q1 of the current fiscal and 30% over quarter 2 of the previous year. Export orders to oil and gas sector as we said in the overseas market and project supplies in the domestic market helped us in achieving these results. With other income close to about Rs. 6 crores in H1 of both current and previous year, total income for the H1 rose to Rs. 573 crores compared to Rs. 402 crores of previous year, a raise of over 42%. This represents growth of over 26% in domestic sales and 6 times in exports. Commodity prices eased out to some extent during the quarter which has got reflected in the lower material cost of 55.6% in quarter 2 compared to 58.6% of quarter 1, almost 3% saving in the material cost. Current cost of quarter 2 is similar or marginally lower than quarter 2 of the previous year.

As the higher input cost of quarter 1 coupled with mix of projects and product orders, 65% and 35% as they were in Q1 and cost was strategically accepted and executed export order for the entry in the overseas oil and gas space in the quarter 1, pushed the overall material cost for H1 to 57.1% as against 54.2%, but this was mainly in quarter 1.

ERE which is employee related expenses is as per the plan and lower in quarter 2 compared to quarter 1. Despite increments and promotions to deserving employees, H1 ERE was at Rs. 72 crores representing 12.6% of the total income compared to 15.9% of the previous year. There is no interest cost and the company has no borrowings and for H1, there has been no interest cost as against about 1,40,00,000 in the previous year. At this juncture, I would also like to state that the company has a net free cash position of over Rs. 160 crores as on 1st October 2022. Of course, this is lower than the previous year when it stood at Rs. 244 crores, but you may observe that during the past 1 year company spend over Rs. 156 crores being aggregate of CAPEX of about Rs. 90 crores, dividend of about Rs. 26 crores and loan repayment of Rs. 40 crores that happened in December last year.

With quarter 2, depreciation is in line with the previous quarter, it is lower than the corresponding quarter of the previous year. H1 depreciation is also lower than the H1 of the previous year. Other expenses as you know are the mix of fixed and variable costs and are at 18.2% of sales in H1 of the current year compared to 19.7% of the previous year. There is no significant variation, in fact there has been saving in terms of presentation of sales in the level of expenditure during the current quarter except that the normal level of pre-COVID expenses is being incurred. As a result, EBITDA in quarter 2 at 14.7% has improved over quarter 1 of 10.9% and this is a significant, almost 4% growth in EBITDA levels of the current year and quarter 2 of the previous year when it was at 11.4%. Similarly, EBITDA for the current year H1 improved to 12.9% compared to 11.4% of the previous year. Profit before tax for the first half of the current year is Rs. 57 crores representing 10.1% of the total income compared to Rs. 25.4 crores equivalent to 6.3% in the previous year. The growth in PBT is over 126%. Quarterly PBT also improved from 7.9% to 12% is quarter-on-quarter growth. Profit after tax for the H1 rose to Rs. 43.5 crores and stood at 7.6% compared to Rs. 18.4 crores which was 4.6% representing a growth of almost over 135%.

During these 6 months and during this quarter, company issued 59,700 equity shares and 113,200 shares in H1 under the Employee Stock Option Program to the eligible employees. Consequently, there has been a small change in the paid-up share capital which is now at Rs. 12.91 crores compared to Rs. 12.89 crores. Basic EPS improved to Rs. 6.74 per share in H1 compared to Rs. 2.86 in the previous year. With about 94 to 95% of the revenue coming from compression segment, it remains the only reportable segment. The segment earned a profit of about 17.9%, very close to the average annual profit of 18%-18.5% and this happened in the current quarter, improving from 15% in the last quarter. H1 results also improved to 16.5% against 15% in the previous year.

Order booking during the Q2 was more or less equal to the sales of the quarter and as I said earlier, company has a order book of over Rs. 1,200 crores as on 1st October 22. Incidentally, on 1st October 21 that is previous year, company had Rs. 1,000 crores plus order book. So, there has been a significant growth, almost 20% growth in the order board as well. Capital employed in the compression segment increased to Rs. 305 crores against Rs. 280 crores at the end of quarter 1 and Rs. 277 crores at the beginning of the year. This mainly represents the buildup of the inventory for the business in quarter 3 and quarter 4. Receivables were reduced compared to the opening balance almost by Rs. 33 crores and we have been pretty regular in getting our suppliers of outstanding down there, supplies outstanding is now down by about Rs. 20 crores. And lastly, general breakup of the business between projection product for that we have got 60% business coming from the projects while the balance is coming as usual from the products. Ratio for the H1 was about 65:35, so more or less remaining the same.

That is it from our side so far as the business results are concerned and we are now happy to take any questions.

Moderator: Thank you. We will now begin the question-and-answer session. We have the first question from the line of Milind Karmarkar from Dalal & Broacha Portfolio Managers. Please go ahead.

Milind Karmarkar: Congratulations on a great set of numbers and I think you have delivered what you had promised and as an investor, we sincerely hope that we do reach the target of Rs. 2,000 crores as fast as possible. I had a couple of questions, the first one was about sustainable EBITDA margins going forward, I do understand that they would vary with the different products as well as projects as well as exports, but what is your view would be the sustainable EBITDA margin over a longer period of time that is 3 to 5 years? That is my first question?

K. Srinivasan: First of all, thank you for your compliments, we appreciate it, it always motivates us to meet commitments and I think that is the first thing we set ourselves too is that do what we say and do it every time. That has been kind of you to say so. As far as the margins, we have said a general indication that we had given is our target is to get the company towards 18% EBITDA margin. The compression segment per se has also been delivering that. We are always there as far as that 18% objective is concerned. We should first take it as 18% for the company as an EBITDA margin direction. We are moving towards it. The question is whether we will do it within 1 year or whether we will do it in 1-1/2 years, but we will get there. Then, we will take targets going forward from there.

Milind Karmarkar: My second question is on exports, basically just wanted to check that will the export margins improve going forward because I think last time you had said that one of the export orders which was there was basically an order where we wanted to showcase our capabilities, so obviously that could be of slightly lower margin, so what is your view on export margins going forward? Are they likely to improve?

K. Srinivasan: As you would have seen in Q2 itself, the export margins have come back marginally. It is not as bad as the first quarter. Overall, export margins have been now moving towards again the same, target 18% remains for export as well and when we see the compression segment, overall is around 18, export also being a part of the compression segment predominantly is almost there. I don't want to give a specific margin on exports because there is some benefit that we do get from the depreciating rupee which will also start kicking in, so the margins would be again directionally 18%.

Milind Karmarkar: And also on exports wanted to know if Europe can be an opportunity going forward, looking at the cost of manufacturing going up significantly because of the energy costs in Europe?

K. Srinivasan: Our exports are predominantly today to the MENA region. It is Middle East and North Africa and our advantage is not because we export in the Europe as much as Europe finding it difficult to export into these areas because of their current situation.

Milind Karmarkar: Now, one last question on listing, are we looking at listing on the NSE because it is pursued that this improves the liquidity, so just wanted to?

Suhas Kolhatkar: Your point is valid. We have been applying regularly with the request that we should get traded in NSE and we believe that they are addressing it and hopefully we should see some movement on this going forward.

Moderator: Thank you. We have the next question from the line of Vishal Biraia from Max Life Insurance. Please go ahead.

Vishal Biraia: I was trying to ask that which are the segments, which are the industries from where you are seeing some pickup in enquiries, pickup in orders and which are the segments where you are seeing a decline in enquiries and order prospects?

K. Srinivasan: I think the industries that clearly showing pickup is the upstream, midstream and downstream of oil and gas. There, definitely there is traction and new projects are being envisaged both in India and in the Middle East, so we are very active in that space. Specific slowdown in the quarter, I would not say any. There has not been so far any major slowdown. There has been slowdown in the execution of CNG packages in the final end which is really what the gas stations or distribution stations are. That commissioning and installation work is really being held back because there are availability challenges, there is margin of price challenge for these distribution companies. Consequently, we are not getting enough clearances for installing these gas pumping stations.

Vishal Biraia: And if you could elaborate on the chemical front, on the steel front, on cement, how are the things and on mining as well?

K. Srinivasan: We are not seeing any slowdown at all in any of these you mentioned. On the contrary, in cement, we have more enquiries coming in; on the metal side, more enquiries; chemical side, more enquiries, particularly on the pharma chemical side, etc., so really no slowdown at all in any of the segments that you mentioned. Like I said, there is no slowdown that we are seeing so far.

Vishal Biraia: And how about the pricing, now that the commodities have cooled off a bit, are you seeing some pricing actions by the competitors and by ourselves as well where some of the prices are being rolled back or discounts being offered, anything of the sort?

K. Srinivasan: We never got the price increase that we wanted when the prices went up. There is no reason for us to pull back prices with the commodities easing off, they have never gone down significantly, but definitely it is not going up further in most cases. So, I think we are in a very stable price condition at the moment. We are able to hold the price, we are able to quote and stay with the price. I think that is the way it is going to be for the rest of the two quarters.

Vishal Biraia: And competitors also not resorting to through any?

K. Srinivasan: We work with our numbers; we don't see too much of what the competitor pricing strategies are. I do know that in specific cases, they do take a lower price and then orders, but that is for them to work on.

Vishal Biraia: And my last question is on the export front, we were also looking at export opportunities for the gas compressors and overall sketch for oil and gas applications in Southeast Asia, so how is that panning out?

K. Srinivasan: At the moment, we are busy with Middle East and North Africa. We have had a few enquiries from a few Southeast Asian countries, but these are early stages.

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

Mihir Manohar: Congratulations on a good set of numbers, really good execution and also on the margin side. I had couple of questions, I mean in your opening remarks, you mentioned about deferring the launch of hydro boosters, sir, just wanted to get an understanding as to what is exactly the issue happening on the CNG side and given the fact that we were looking at something Rs. 500 crores of the market size from this particular segment and we were looking at Rs. 200 to Rs. 250 crores kind of a revenue, so I mean with this particular segment seeing challenges, how are we still confident of the Rs. 2,000 number that we are aspiring? My second question was on the ordering momentum and your press release mentions that you expect a pickup in order from second half, so if you could throw some more light on what kind of orders are you expecting to win and if you could also quantify what could be the potential order win because when we see last 3 quarter's backlog, naturally our order book is quite good, but over the last 3 quarters, it has remained around Rs. 1,200 to Rs. 1,250 crores kind of a number, so that was the second question? And lastly on the export side, I think if you could throw some more light, how are you seeing the MENA region in a Rs. 2,000 crores target which is there, what could be the exports and how are you competitively pricing our product on that side?

K. Srinivasan: So, first coming to the CNG question, the CNG gas stations that is where they still the vehicle, now there the gas distribution companies do not make margin with the current price of gas at which they get and consequently, their interest in installing new stations is muted plus the availability of gas for a period of time has not been to their expectation that they have to add more stations. So, there is a cooling down in installing new gas compressors for distribution and that is what we call as the fillings stations. The orders have all been given, we all are into this business and they all have these contracts with them, so they are not installing it or deferring it for the moment. So, we are seeing some slowdown. Is this sustainable, the answer clearly is no, it cannot remain this way. That is why I said it is a situation where you will have a social problem if you have so many gas vehicles and they are not able to fill gases. So, consequently, this has to ease. At the moment, we expect this will take at least a quarter or so to play out. It is not going to happen during the winter months and gas price even otherwise globally is high. So, we expect it to start easing only in the fourth quarter. Consequently, we are going to have, let us say, almost a quarter and a half more of lower CNG compressor sale. In this context for us to push the new product of the booster compressors doesn’t make sense because there are not too many being installed as it is. So, that is why we have repositioned saying that we will now focus on these next 2 quarters on the biogas where there is activity, not to the same scale as the CNG stations, but there is activity still happening around this space, particularly driven on the back of ESG initiative, so we are focusing on that. Longer-term story of gas being a predominantly friendly energy source and a product that will be driven by the government in the energy market would remain. They have given a target that they will move the gas composition in the energy basket from 5% to 12% and that is not going to change, so all these longer-term stories remain. We will have some pain in the next quarter and a half at least, so that is what we are looking for. That is your first question.

Your second question is in terms of order backlog, yes, 1200 would not be enough to meet our growth aspiration of continuing to grow at 20% plus year-on-year which means our order bank has to go up, but I also did mention that the expectation of this new requirement of getting hydrocarbon projects executed quickly in the Middle East etc., means that the execution cycles would have to be faster and that is where our execution capability and engineering capability would kick in as an advantage, so I said that is going to help us to finalize quickly and execute quickly shorter than what we are used to. So, we expect one to book more quick turn orders, second is to execute orders and fill them up equally fast, so it is going to change the rhythm of our working, but yes, we need to book more orders and execute them faster. That is broadly the answer on the order backlog. We will see more order booking. We will also execute faster.

The last question you asked is in terms of export and export competitiveness. I did answer in the earlier one itself saying that our competitiveness comes from our ability to engineer a complete package and execute them efficiently and quickly. I did mention that we did one execution and installation within a quarter and this is at a difficult place in the Middle East North African region and this is not done in a normal course of business. So, it was an exceptionally good set of work done and that would go well for the way we would take up future orders and execute very aggressively. So, that broadly answers all your three questions I assume.

Mihir Manohar: And just lastly, just an extension to that, despite the challenges which are there on the CNG side, do we still believe that we will be able to achieve Rs. 2,000 crores kind of a number over the 2-3 years?

K. Srinivasan: Yes, this is only a quarter and a half story. This is not going to play in the future. Our Rs. 2,000 crores aspiration is 2-3 years, so this will catch up. There is no cancellation, there is no technological change, there is no substitution, it is a deferment and that will play out.

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

Aditya Chheda: Sir, I wanted to understand what are the key parameters your customers would look before buying the compressor, would it be the price of the compressor or the efficiency of the compressor assuming that our cost would be also major part of running it, so if you could guide us in understanding this?

K. Srinivasan: I think we had answered this in a different way in the earlier calls and I will explain it. See, we did about 3,000 odd compressors last year for a turnover of roughly about Rs. 1,030 odd crores. That means our compressors are about 30 lakh plus per compressor which means we don't sell their compressors, we are more of a package solution provider. Compressor is the core of our package solution. We are more of a package solution provider. Consequently, the customers who buy our products are looking for a comprehensive engineered package solution. So, the compressor is the core part of it, but that is only the core, it is not everything. So, there is everything that put together which gives them an efficient cost effective and quick installed solution for this requirement.

Aditya Chheda: And apart from this, is there any parameter on which we are benchmarking ourselves with competitive products or that would not be very material given the nature is more project based and execution based?

K. Srinivasan: Yes, we do benchmark obviously in every individual items in this package, but the final delivered solution to the customer is the cost of ownership and the overall cost of installed commissioned package that we get and there we compete based on all parameters, individual product efficiencies, individual product pricing as well as the complete execution.

Moderator: Thank you. We have the next question from the line of Suraj Nawandhar from Sampada Investments. Please go ahead.

Suraj Nawandhar: Congratulations on the very good set of numbers. Sir, my first question was on the outlook for the second half of the year our second half is usually stronger in terms of revenue as well as in margin and also this quarter we have a bit of spillover effect of Q2 in Q3, so can we expect the same this year as well?

Suhas Kolhatkar: I can give you broad indication Suraj, look last year as on 1st of October we have order board of Rs. 1,000 crores and a sale of Rs. 395 crores, so we delivered Rs. 1,021 crores. This year, first half we had done about Rs. 567 crores and we have order board of Rs. 1,200 crores. So, you can extrapolate the numbers based on this. Margins will always be better. We had given the indication that we will have about 20% growth over the previous year during our last calls also.

Suraj Nawandhar: Sir, next question was, there was one media report saying that the government is supplying the PLI scheme for city gas distribution where they are also including our products, firms and gas meters and there are more equipments, but have you got anything on it?

Suhas Kolhatkar: No, not for our product, I don't think it is available for our product.

Suraj Nawandhar: And you also talked about target of 18% EBITDA margin, can you just guide what products or which segment will be the driving force which will take us from 12-13% to 18% EBITDA margins?

Suhas Kolhatkar: See, on EBITDA margins, Suraj I want to just say don't judge KPC's performance by quarter-on-quarter or quarter by quarter. Look at the historical EBITDA percentages from the compression segment. We have been delivering close to 18.5%-19% plus and our direction for the current year is also towards the same. If you just look at the current quarter, we have got about 17.9% or close to 18% EBITDA of segment result from the compression segment and overall results are about 16.5% to 17% which are very close to, it is better than the previous year. What is pulling at KPCL is at the company level, there are couple of businesses and the corporate expenses which are under, I would say, scrutiny and we are working on it to get how to improve the margins over there and reduce, I would say, the cost coming out of those. So, other nonreportable segments which are barely Rs. 30-Rs. 35 crores of total revenue is something that we are looking at. Today, they are supporting the compression segments and we would take appropriate steps to reduce that cost, so as to improve the KPC wise margin. Directionally, as Mr. Srinivasan said in the first question when we replied to Mr. Milind that our interest, our intention is to have about 18% EBITDA margin for the company as a whole. So, that is the direction that we are working on.

Suraj Nawandhar: And sir, is there any update on Roadrailers?

Suhas Kolhatkar: RoadRailer is something that we are working on. Again, it is a part of nonreportable segments. You are aware that we were into this business, our main interest is to manufacture that, we are looking at the tie-up for the service function with the potential logistics providers who would also eventually take up this business. Our interest will continue to focus on the manufacturing of Roadrailers whenever they are required and that would mean that we are focused to our engineering business.

Suraj Nawandhar: Update in terms of approval from Ministry of Railways, last time when you spoke you said that we are waiting for approval from railways to run this on pan India basis?

Suhas Kolhatkar: We have been running this for last couple of years and over 150 trips we have done. However, we have only one corridor to operate on which is between Delhi and Chennai. The government is working on general policy where it will allow others also to come into play in the Roadrailers which means the sectors will broaden, expand and KPC having the technology will have opportunity to supply Roadrailer units to them.

Moderator: Thank you. I now invite Ms. Sonali Shah from Emkay Investment Managers to please go ahead with your question.

Sonali Shah: Sir, my first question is, what is the current lead time to deliver say a product as well as the projects order right now as you mentioned there is a quick turnaround time right now?

K. Srinivasan: If you look at air compressor which is really an equipment that we deliver, we deliver it generally within 6 to 12 weeks depending on the complexity. A project can be anywhere between 6 months to 14 months, now that again depends on the package and the complexity. Today, we are trying to see if this 6 months can come down to 5 months and the 14 months can come down to about 8 to 10 months, so that is a big task and that is what we are trying to work on.

Sonali Shah: Just the second question will be, we have done around almost Rs. 500 crores worth of inflows in the first half of the year, so is it kind of response confirming this in the second half of the year majority of our inflows would be coming predominantly in the gas compressor segment?

Suhas Kolhatkar: Sonali, the order book today has the same composition as our businesses, so you know that we have about 25% to 30% coming from the air compressor, 30% to 35% coming from refrigeration and balance 40%-45% coming from the gas system. Now, order book composition is the same. We have capabilities to deliver close to Rs. 400 crores in a quarter which we have demonstrated in the past. We have Rs. 1,200 crores order board with us that will help us to get the figures and we will be able to get the sales in the second quarter. CNG which was a little bit slow in the second quarter is bound to pick up because most of the CNG companies do have the deliverables, though they have been given certain concessions, but the enquiry levels and the orders for the delivery and other gas systems and refrigerations and the air compressors are pretty strong and the order board is also good for the delivery. So, we should be able to get that 20% growth on the annual basis. So, balance required sales will come in the third and fourth quarter.

Moderator: Thank you. We have the next question from the line of Vishal B from Max Life Insurance. Please go ahead.

Vishal Biraia: Sir, I was trying to ask, will it be possible for you to tell me that in the first half in the air compressor business in India, would we have gained market share?

K. Srinivasan: See, we are not the big player in the air compressor business in India. We are one among the many smaller players. The big two are much bigger, so I won't even have had a guess whether we won market share or not. We are not significant in any case.

Vishal Biraia: Coming to Europe, we are seeing a lot of new LNG stations coming up in Europe, so is that crediting potential opportunity for us that we may be addressed in a few years, is that something of interest?

K. Srinivasan: We have to see how this plays out. To start with LNG basically is cryogenic pumps etc., our refrigeration opportunity does play out in this, but that is more at the time of the storage that is where you actually do the LNG, compression and putting it on the sea. So, we are working on couple of those opportunities in the Middle East and North Africa because a lot of it is going to move from this space into Europe. At the point of downloading and distribution, these are just cryogenic pumps, etc., it is not really our cup of tea at the moment, but yes, there are opportunities in the upstream area as you talk in this LNG and that is not in Europe. That is going to be from the Middle East and North Africa.

Suhas Kolhatkar: On the lighter side, we will have to see the availability of gas in the Europe going forward.

Vishal Biraia: My question was more from the reclassification terminals that are coming up?

K. Srinivasan: Correct, absolutely, they are now trying to get LNG out of Algeria, Morocco, all kinds of places which were not seen as viable earlier. Your point is valid.

Moderator: Thank you. We have the next question from the line of Pratik Kothari from Unique Portfolio Managers. Please go ahead.

Pratik Kothari: Congratulations, sir. Sir, my first question, just a clarification, the Rs. 85 odd crores of exports that you did in the first half would it be largely on the gas compressor side, right?

K. Srinivasan: Yes, I think significant part is on the gas projects. There is still a refrigeration component in it, traditional businesses that we do. In the second half, there are packages of refrigeration that is also going out in this space. I think one of the earlier participants did ask question about LNG, there are opportunities of refrigeration also there along with the oil and gas sector. So, that will also start playing in the second half.

Pratik Kothari: And your air compression system and your refrigeration centre market exist and we can participate if we used to build it out on the export side?

K. Srinivasan: This is a market that is burgeoning basically because of the repositioning of the European demand from the old traditional gas sources to the newer requirement coming out of the Middle East. Consequently, a lot of things which were not earlier tapped are being tapped. Tremendous opportunities for new installation of gas packages, refrigeration packages in this space and we have a great possibility of doing more.

Pratik Kothari: Sir, my last question, since being about 2-1/2 to 3 years since you have come into the company and you have highlighted multiple times that there were lot of low hanging fruits in terms of introducing new products, starting into new geographies, exports that you intake do anything to be playing out, if we have to look out 2-3 years out, what would your priorities be now?

K. Srinivasan: I think we will have to take step by step. I think we said Rs. 2,000 crores in 2 to 3 years, first priority, there is a whole lot of work that is going on creating capabilities within the company which involves product development, capability building in terms of engineering and execution, cost competitiveness building in terms of getting our value chain in better position to address the newer opportunities which means our project Hercules for forgings which means some fabrication for our internal requirements which will make our value chain more efficient, so whole lot of activities are going on and you see companies grow on an S curve, lot of effort, little result in the early days and then the big tipping point and then it starts moving better. We have headwinds at some stages, but they also have some advantages. It gives us new opportunities and new areas to learn and work on. So, I think we are clear, 2 to 3 years, we said 2000 we should get that quicker than what we want to and then we will talk about what we want to do from there. Like we said in the early calls, this is a large opportunity in terms of market size. The whole business is big, we have the competitive advantage being in the right geography with the right positioning. We will try and maximize on the opportunities available to us.

Pratik Kothari: Sir, Season's Greeting to you your team and all the team.

Suhas Kolhatkar: Thank you all and once again Season's Greetings, Diwali wishes.

Moderator: Thank you. We have the next question from the line of Niraj M. from White Pine Investment Management. Please go ahead.

Niraj M.: Just had one question on, what would be the share of revenues for air compressor and refrigeration for your company today?

K. Srinivasan: We give a very broad guidance and we would leave that as a general thing on a sustainable basis, about 25% from air, about 30% to 35% from refrigeration, about 40% to 45% from the gas business. So, this is the broad guidance that we have been giving and we by and large plan our business around these ratios. There would be quarters when this ratio gets a little changed, for example, last quarter, I would say the gas business went up a little bit higher because of some big exports even out of India.

Niraj M.: Simple question is like can you tell us the way to think on how do you see the growth rate on these 3 segment over next 3 years and in terms of order of growth where you all think will be among these three?

K. Srinivasan: So, what we have been saying is the ratios we have given, the ratio in our business and that is also not only based on the growth rate in the market, but also in terms of sustainable growth for the company. If you overgrow in segments like in the gas business, then there is a cycle in the gas business, you will see peaks and valleys, so to keep the company's growth rate evened out at 20% plus year-on-year we would need to keep a certain balance in the growth between these three segments and that is the reason we said we will stay at about 25% on the air compressor, between 30 to 35 on the refrigeration and about 40 to 45 on gas. The market opportunities in all these segments for us are significantly higher, but this is the kind of growth that we would aspire to take. If you are looking at what these industries are growing, they are growing at different rates. They are growing at 25% year-on-year. It is our market opportunity in this that we will take.

Niraj M.: On the railroad, can you give a thought of yours how you see it scaling up because the opportunity of the railroad is very high, large, but things are not moving much that side, any thoughts on that side?

Suhas Kolhatkar: The Roadrailer business for us is the business that we have said clearly is not our core. We are looking at a strategic partner who would run the business part of it and we are only interested in being the Roadrailer manufacturer. We have done what we call as a technology and efficacy demonstration. We have demonstrated that on an end-to-end automated logistic management is possible and we have run it successfully for more than a year and a half right through the end of COVID till now and we have shown that without any kind of disruption, any accidents, thank

God, we have been delivering month on month, week on week consignments which are very precious cargo like right from cell phones to air conditioners etc., from Chennai to Delhi to our various customers in a very efficient way. It is now for the logistic partner or the strategic partner to take and run with it across India. We would be only interested in being the backend manufacturer. That is all is our long-term objective. We are working on it and it will take its time because there are multiple things involved. One is, there has to be a good partner who take and run one or many, second is they would have to work their way with the government approvals, etc., and once this is done, we will have a formal announcement possible at that stage.

Niraj M.: But is there approval issue from the government right now, is there a bottleneck on that side?

Suhas Kolhatkar: Not for us, nothing from our side.

Moderator: Thank you. We have the next question from the line of Manish Goel, an Individual Investor. Please go ahead.

Manish Goel: Congratulations on great set of number, sir. Sir, couple of questions, first on the export side, would just like to get some perspective as to how much the addressable market would be for us on both the gas and the refrigeration, compressor packages, number one? And number two, how the market size would have increased in recent past due to probably very strong oil prices and the gas prices? And third question related to is that, are these orders on competitive bidding or these are largely negotiated?

Suhas Kolhatkar: I will tell you Mr. Goel couple of directional things. How much large is this market is I think anybody's guess because it all depends upon when the project starts coming up for execution. As the things stands today, we have got close to about Rs. 700 to Rs. 800 crores enquiry levels from the overseas market in the oil and gas sector, particularly in MENA. I would say oil and gas sector, but gas as well as refrigeration. Conversion rates are pretty good because we had been demonstrating this, we have been working on this for last 3, 4, 5 years and the result of which we have seen in the current year with first half exports going to about Rs. 85-Rs. 86 crores and we do have similar number of orders in the order bank, so that would give us good opportunity to bid for the subsequent orders. In the export market, the consultants through EPC contractors etc., and then they always invite bid from multiple players in this field and negotiations for the price once you are technically found capable of delivering what we call it as a proven track record, we are entertained for the order negotiation. So, that is something which will give us opportunity having executed the orders in the current year.

Manish Goel: Sir, the whole idea to us is also as to get a perspective that in our journey to Rs. 2,000 crores, probably our aim to have 15-20% revenue share from exports, for this it is basically incrementally we will see on a sustainable basis, our export revenue growing to Rs. 300-Rs. 400 crores and sustaining over there?

Suhas Kolhatkar: That is what we are hoping for. Let us see how the market turns out to be.

Manish Goel: And sir, in projects business, out of revenue we generate in projects, how much would be our own products in that particular say project revenue and how much would be outsourced?

Suhas Kolhatkar: The project business is a packaging business, though we call it as a project, it is actually a package and here package meaning, we engineer the product, we do the construction of the product, we test the product in our factory before we dispatch, so we know what we are manufacturing etc. Depending upon the scope of supply, the in-house manufactured compressor component will get decided or content will get decided.

Manish Goel: But ideally what would be the bank, sir?

Suhas Kolhatkar: It is very difficult to project, in CNG compressor product or CNG compressor project, 100% is manufactured. That means the core compressor is manufactured by us. Obviously, we are not going to get involved in the manufacture of motor, engine, etc., which is the main driver of the compressor, so those are the bought-out components. So, we say that roughly about 15%-20% would be the internal contribution or internally manufactured product in case of CNG. In case of other products, it is mostly outsourced. So, we have very little portion going into the build of the product which is produced internally because that is something we would not like to get unnecessarily involved as our scope is to engineer and supply the package.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to the management for closing comments.

K. Srinivasan: I think just to end this discussion, again the Season's Greetings and Happy Diwali and a very healthy and wealthy New Year. I am sure the stock market will give you sufficient benefits coming from all the industries and thanks for attending this Earnings Call of the Kirloskar Pneumatic Q2 results.

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.