"Kirloskar Pneumatic Company Limited Q4 FY-24 Earnings Conference Call"

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MANAGEMENT:	**MR. K. SRINIVASAN – MANAGING DIRECTOR, KIRLOSKAR PNEUMATIC COMPANY LIMITED.**
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MODERATOR:	**MR. AMIT SHAH – ANTIQUE STOCK BROKING**

Moderator: Ladies and Gentlemen, good day and welcome to Kirloskar Pneumatic Company Limited Q4 FY24 Earning Conference Call hosted by Antique Stock Broking.

As a reminder, all participants 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 any 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. Amit Shah from Antique Stock Broking. Thank you and over to you, sir.

Amit Shah: Thank you. Good afternoon, everyone. On behalf of Antique Stock Broking Limited, I welcome you all to Q4 FY24 Earnings Call of Kirloskar Pneumatic Company Limited.

To discuss the Results from the Management we have Mr. K. Srinivasan – Managing Director and Mr. Ramesh Birajdar – CFO of the Company.

I will hand over the call to Mr. K. Srinivasan for his "Opening Remarks", post which we can open the floor for Q&A. Over to you, sir.

K Srinivasan: Thank you Amit. Good evening to all of you. Thanks for joining this Call.

Let me at the outset wish you all a belated Gudi Padwa, Ugadi, Baisakhi, Tamil New Year, may the New Year bring us all good timing and joy.

I have with me on this call Ramesh Birajdar – the CFO and Jitendra Shah – the Company Secretary. I now will request Jitendra to read out the disclaimer for all of us, please. Thank you.

Jitendra Shah: Thank you sir.

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

Thank you all.

K Srinivasan: Thank you. Jitendra.

So, let me start with the details of the year:

The year F24 was a difficult one. We had strong domestic sales growth, but a year in which the export was at Rs 69 crores were nearly Rs 100 crores lower than the previous year. This meant that the overall sales growth was muted at Rs.1,323 crores, only 7% higher than the previous year.

On the back of the favorable product mix and greater in-house manufacture, the pre-tax Profit at Rs.178 crores was nearly 24% higher than the previous year. Demand for our products remained strong with the new order booking in the year at an all-time record of Rs. 1,770 crores nearly Rs. 500 crores higher than the previous year. This bodes well for the strong sales growth that we have planned for F25.

During the year, the Company gradually enhanced its in-house manufacture at Nashik. We now manufacture our requirements of alloy steel forgings and critical fabrication. This has not only helped us to offer quicker deliveries but also to reduce costs.

The CAPEX spend for the year was at Rs.61 crore. This was primarily to enhance our capability to allow us to deliver over Rs. 500 crores of sales per quarter.

The Company also continued on its strong focus to build IPs. We have over 15 Design and Patent filings during the year. The Company was also awarded the “Kincentric Best Employer” of the Year Award which is a testimony to the robust people processes that we follow.

The Company entered into an agreement with PDC Machines LLC USA to package their Diaphragm Compressors for various hydrogen compression applications. This is a growth area in India, and we are now well placed to address this opportunity with the best solution available globally.

The net working capital at Rs.278 crores was 17.6% of sales. This is an improvement over the 19.1% that we had last year. We still are looking to reduce it as a percentage further during the subsequent years. Consequently, the fresh cash generation during the year F24 post-tax, post-dividend was over Rs.125 crore.

Let’s now discuss the results by product lines:

The Air Compressor business continues to grow with its two new product lines, the Tezcatlipoca Centrifugal Compressors, and the Aria-Atmos Standard Screw Compressors both doing well. The Tezcatlipoca has quickly established itself as the preferred choice amongst Centrifugal Compressor buyers. We have a good bank of orders for execution for this in F25. Overall, there was an intense competition in the Air Compressor space with nearly all the global players being present and vying for market share. We continue to grow our business profitably albeit at a moderate pace.

Refrigeration compressors and systems:

We had record sales of Bare-Shaft Ammonia Compressors used in cold chain and ice plants. We remain a dominant player in this segment. The larger installations in food processing plants, dyes and pharmas continue to be dominated by imported compressors. We have just started installing our Khione Screw Compressor packages in this area. This should see a significant scale up in F25. As we speak, we have got our first orders for export of this as well.

The Refrigeration package sales to the ammonia terminals and petrochemical plants were affected by delays in delivery of compressors from Europe, as well as in getting clearance from the EPC contractors for the site. We expect this challenge to ease during the next two quarters. Overall, sales in this segment was below our plans.

Process Gas Compression Systems:

We had record execution of order for oil and gas projects in India during the year and this not only contributed to sales growth but also compensated to the poor offtake of CNG packages. We continue to have strong orders in this space. CNG packages and Cālanā Booster Compressor installations continue to lag in spite of various steps and announcements in the sector. We expect to see material change on the ground in FY25.

There has been a significant uptick in both inquiries and finalization of orders for Biogas Compressor Packages. The Company as of now the most cost-effective compressor package for this, the Jarilo range that can handle gas from 0.5 to 250 bar in Four Stage Configuration. We expect this business to become a significant one during F25 with several major projects under finalization.

Export of gas packages to MENA region was lower by nearly a 100 crore as we mentioned earlier. We do not expect any significant improvement in F25 with the current situation in this region. However, our investment to build this business in Southeast Asia is bearing fruit and this will grow gradually.

The O&M services business continues to grow with the installed base itself growing, we expect this to become more and more significant as we go forward.

Outlook for F25:

The global economy is getting into a new normal with all the wars and uncertainties getting plugged in. The initial rush to find alternate gas sources, reducing the concentration of supply chain to one country have clearly cross the hunch. We are into a field of relative stability and modest growth. However, for us at KPCL, we have the advantage of being India-focused and this is an area of high growth. Further, the strategy to focus on building in-house capabilities for manufacture of most critical items and to build a new range of compressors for various requirements based on our IP and Design will further strengthen our competitive position in this market. With a strong order bank at the start of the year, we are committed to delivering double digit growth in top line in F25. This should allow us to reach our aspirational target of Rs.2000 crores by next year.

The Company declared a final dividend of Rs.4, which is 200% taking the total dividend for the year to Rs.6.50 which is 325%.

Now with this, I will request Mr. Ramesh Birajdar – CFO to take you through the Financials. Ramesh, can you?

Ramesh Birajdar: Yes, thank you sir. Good evening everyone. I trust you have had the opportunity to review Results recently posted on NSE and BSE website, following the conclusion of our Board Meeting. Additionally, we have uploaded a Presentation detailing our Annual Results on our Company's website. For those who have not had the chance to view the results yet, let me provide a summary of our financial performance for the 4th Quarter and Fiscal Year 2024.

Before discussing the specifics of our financial performance, let me first highlight some of the year's significant achievement:

- The Company recorded new order bookings exceeding Rs.1,770 crores within the Fiscal Year 2024.
- As of April 1st, 2024 the Company's order book amounted to Rs.1,475 crores a significant increase by 28% from Rs.1150 crores recorded on April 1st 23. This sets the stage for a strong start to FY25.
- Sales of Rs.1,323 crores witnessing the growth by 7% over the last year, profit before tax shows a growth by 24% to the tune of Rs.178 crores.
- Commissioned the forging facility in Nashik as a part of vertical integration, launch new products such as Tezcatlipoca – a Centrifugal compressor, Atmos Aria – an off-shelf screw compressor and Jarilo – a biogas compressor.

I will now run through the "Business Results" for Q4, and the year ended on 31st March 2024:

Sales for the Quarter 4 were higher than the preceding quarter Q3 and stood at Rs.490 crores, 59% higher than compared to Q3 of FY24, and by 36% year-on-year for the 4th Quarter. However, the sales for the full year showed a growth by 7% over the preceding year as the Company reached a total turnover of Rs.1,323 crores compared to Rs.1,239 crores in the previous year.

With other income, mainly interest receipts, dividend, surplus on sale of assets of Rs.19 crores against Rs.11 crores in the last year.

The total income for the year was Rs.1,342 crores compared to Rs.1,250 crores in the last year with better product mix and better realization of sales, metal cost was at 54% of sales compared to 56% in the last year.

The annual employee related expenses stood at Rs.164 crores up from Rs.144 crores in FY23, with increase in on account of one-time expenses of approximately Rs.4 crores for the labor settlement, the commencement of forging plant in Nashik as a part of our vertical integration strategy and regular salary increments.

Depreciation is in-line with previous year and addition to assets, the Company invested close to Rs.61 crores in CAPEX.

Other expenses are a mix of variable cost and fixed cost. FY24 is at 18.21% of total income as compared to 18.6% of total income in previous years. There is no significant variation in the level of expenditure and the cost control exercise in the previous year will continue in the current year.

Exceptional items in the profit and loss account is a one-time impact of Rs.8.38 crores taken on account of impairment of RoadRailer business.

The EBITDA in the current year is marginally higher at 16% of total income compared to 14.2% in the previous year. This is mainly on account of the change in product mix and better realization on sales.

For the Q4 profit before tax was much higher at 16.3% compared to 11.6% of the previous year, due to higher sales in Q4 FY24. The annual profit before tax improved to 13.3% of total income compared to 11.4% in the previous year. FY24 profit before tax of Rs.178 crores showed a 25% growth over previous years PBT of Rs.143 crores. Profit after tax rose to Rs.133 crores which is 10% of total income compared to Rs.108 crores in previous year, which was at 8.7%.

1,38,400 equity shares previous year 1,89,400 equity shares under its employee stock option plan. Consequently, paid up share capital increase to Rs.12.95 crores compared to Rs.12.93 crores as at the beginning of the year.

Basic earnings per share improved to Rs.20.60 per share in the current year compared to Rs.16.82 in the previous year.

The Board has recommended a final dividend at the rate of 200% that is Rs.4/-per share for face value of Rs.2 with interim dividend at the rate of 125%, the total dividend for FY24 would be 325% as against 275% in FY23.

With about 93% of the revenue coming from the Compression segment, it remains only reportable segment, the Compression segment earned operating profit of about 20% in the current year compared to 18% in the previous year. The Compression segment is consistently sustaining profitability within the range of 18% to 20%. Capital employed in the Compression segment is almost the same of last year. Net cash position of Rs.275 crores as on 31st March 2024. Previous year was Rs.190 crores, after paying final dividend of the last year and the interim dividend declared in the current year apart from CAPEX of Rs.61 crores.

The Company has no loans, neither term loans nor working capital loans. It is a debt-free Company. Financial charges are paid to banks for services not related to any borrowings. The ratio of net working capital-to-sales improved to 17.6% from the previous year's 19.1%, improvement is driven by higher customer advances and more favorable payment arrangement with suppliers. Receivables have increased to 86 days from 81 days in the previous year primarily due to elevated Q4 sales and similarly, supplies outstanding have extended to 86 days from 70 days compared to the previous year attributed to improved payment terms with supplier. Wherever necessary, the figures from the previous year have been regrouped, adjusted to align with current reporting.

Now, this forum is open for discussion with our esteemed investors.

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

Mahesh Bendre: Sir, our order backlog has grown by 28% on a Y-o-Y basis so, going into FY25 is it fair to assume that we will report similar kind of growth what is there in the order backlog?

K Srinivasan: We have been always saying that strong double-digit growth is what we can always confirm. We did slip on the top line growth last year, so hopefully we will catch up and have a very significant double-digit growth. Let's take it quarter-by-quarter.

Mahesh Bendre: Yes, because the export is one major, which has pulled us back this year. So, do you think any improvement, because number is very small now?

K Srinivasan: Yes. So, we have done only Rs. 69 crores of export, we expect to be under Rs. 100 crores of export even for the next year.

Mahesh Bendre: And domestically we will report?

K Srinivasan: Domestically we have a very strong order book, so we would still be able to deliver at least 20% growth.

Mahesh Bendre: Okay. And sir in terms of margins last two quarters, we have been hitting very strong numbers 17% and this quarter we are hitting 18.7% kind of margin. So, are these margins sustainable?

K Srinivasan: We believe so, there are multiple reasons why this margin has come out. It's a process that we have been talking about in the various calls. Directionally our margins have been improving as the two lagging businesses started fading away. The transmission business has been repurposed, that has given us a certain margin growth, the RoadRailer business per se has been, let's say we are not running the operation. Now we have also taken the impairment so that hopefully by the next one or two quarters, we will dispose the balance assets. So, all this is to ensure that the operating margin has gone up. So, this is where we have already planned that it will be and it will continue to improve as the product mix further improves.

Mahesh Bendre: Okay. Sir few quarters back, we had indicated that we might achieve 2000 crores of sales by FY26, so are we still given the strong order intake, we will be able to report this kind of number in FY26?

K Srinivasan: What we have said is, even in the opening comment, I said that by FY25 definitely yes. But on a quarter-by-quarter if you add up, you probably try and do it even faster.

Mahesh Bendre: Sure. Sir last question from my end. In terms of order inflow guidance, you indicated that the inquiry flow has been very strong. So, does the order inflow also looks very decent for the full year?

K Srinivasan: Order inflow is something that we will have to wait and watch, the activity level inquiries are pretty good. So, last year was a very good order intake, we continue to see a same kind of traction domestically. And we hope that we will have an even stronger order intake this year.

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

Mihir Manohar: Sir, on the commentary you mentioned that CNG and Cālanā didn't add to this year. But, however, you were expecting a material change in FY25. If you can provide clarity, why do you say so and if you can quantify what kind of inquiries could be there, what kind of order flow could be there from CNG and Cālanā compressors,that will be helpful. The second thing you mentioned also biogas. Specifically, you mentioned that you are expecting a significant uptick in compressor enquiry. If you can throw some light over here, what is happening across the industry. And it can quantify what kind of order inflow, what kind of value as well as the number of compressors are we expecting for biogas. And the third question was on the unallocable expenses. When I see your unallocable expenses, we are still at the similar level of

65 crores for the full year, so what it was than the last year. So, when should one see your unallocable expenses coming down?

K Srinivasan: Okay. Let me first answer the first two questions and then I'm going to request Ramesh to answer the last one. On the CNG and Cālanā, CNG package sales have actually continued to decline. We went down last year; we further went down the year that has just completed. In Cālanā we actually grew, the number of compressors that went out this year is probably the highest ever. So, sum total both the CNG and Cālanā combined, it still was lower than the last year, approximately we did about a combined number of packages about 110. We were about 150 as you know the previous year, so it's still much, much lower. Now, this is what is being shipped out. The order intake has been quite different. There has been significant amount of order inflow coming in primarily around Cālanā. There are also quite a few tenders that you have quoted on the CNG as well. But a lot of them need clearances for it to be shipped out. So, this is what we always been saying that the order getting alone doesn't solve the problem unless we get site clearance for them to be shipped out. This we expect should start picking up and once that happens the execution on this would go up during the year. Hopefully we are expecting, see the overall number that has been put out by the Petroleum and Natural Gas Regulatory Board is available on the website you will see that it's roughly about 12,000 stations have to come up in five years out of that one year is already over. So, that many has just have to be done in the next three to four years. We expect a significant uptake in clearances to ship these out. As far as biogas is concerned, several large players have announced major investments in this space. Having said it, this is a technology that is evolving primarily based on the sustainment and availability of the bio source. If you set up a biogas plant based on urban waste and then you find it doesn't run well then you going to partly switch it with press mud or spent wash that you have sourced, then that technology that these plants have to use to work on biogas changes. So, today there is going through a bit of a learning. So, the scale up is something that will take time having said it, since there is a major commitment for this project. Again, there is a separate scheme, there is an announcement that Government of India they will need 5000 biogas stations, which means 5000 compressor sets would have to be available, we expect significant pickup. As of now we have got less than a 100-biogas package, I would say less than 50. But we are negotiating quite a few big numbers. Let's see how it goes during the year. The last question you add on saying that unallocated expenses at 65 crores, I'm going to request Ramesh, to see if he can throw some light on this, Ramesh.

Ramesh Birajdar: Mihir, Ramesh Birajdar here. If you see the comparative numbers for FY23 and FY24, there is no significant increase in the cost though the activity has been increased, but with the various methods of the cost control and cost reduction we tried to maintain the overall cost for this in the same range earlier Rs.13 lakh increased, otherwise it is well under control for us.

Mihir Manohar: Sure, sir understood. Just lastly on the Nashik forging plant if you can quantify what are the CAPEX that we did over there. And what will be the per annum cost savings that we are expecting from the Nashik forging plant?

K Srinivasan: See Nashik is a capacity that is going to be predominantly used for in-house requirements. The CAPEX that we have spent very roughly is about 25 odd crores, nothing significant and that is last year before that we could have spent another about eight to ten crores on the setting it up fabrication and all that stuff. So, it would largely meet our internal requirements, but in terms of activity level, et cetera it would be equal to an activity of something like 100 crore of internal valuation.

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

Shubham: So, if you could just help me out with the revenue mix for FY24 versus FY23. So, what was for the Air Compressor, refrigeration and process gas. And within gas compressors, what was the revenue for our CNG business and other oil and gas and also if you could provide the number of mother and booster packages which were installed this year?

K Srinivasan: Okay. So, you are asking between '23 and '24 on the air compressor. The Air Compressor business sales was by and large about the same as the previous year, there was no big growth. You have other questions you said total compressors, overall, we have been producing about 3,000 compressors a year that number has also not changed significantly. So, the total number of compressors we delivered is about (3000+). And that has been by and large the same, which means really the unit price has moved up to higher value packages, there is no significant growth in the number of compressors that we have made.

Shubham: No sir, so actually I meant the revenue mix between our air, refrigeration and process gas segment, and also the number of mother and booster packages in our CNG business and what was the revenue between CNG business and other oil and gas. Like if you could provide that revenue mix?

K Srinivasan: We won't have so much detail. So, if you want to say that let's say CNG and CNG stations and Cālanā combined we have done about 120 compressors.

Shubham: Okay. And so in the last two, three years we have launched new products like Khione and Tezcatlipoca. So, what kind of revenue contribution has these contributed this year and like to our top line?

K Srinivasan: If you look at the new product and our definition, we talk of anything that is launched within three years as new product, and this is a target that we have taken that the sale from new products should go to about 12% to 15% at the moment it is less than 6%.

Shubham: Okay. And just last one, so we have been seeing a lot of investments like in the oil and gas sector globally. So, how is the inquiry pipeline for these and do we see any exports scale up for next year?

K Srinivasan: Oil and gas sector like we mentioned has been doing well for the domestic market. We have finalized quite a few orders, in exports the Middle East, there are quite a few inquiries, but order finalization has been extremely slow and we have not had any major uptake for the Middle East orders.

Shubham: Okay, sir. And just a follow up on the biogas question. So, what is the contribution in our order book and if you could provide any visibility or update about the biogas lending by the government and do you think, this biogas segment for us can scale up to Rs. 200 crore to Rs. 300 crore?

K Srinivasan: I just answered the earlier question on biogas, I'll repeat it again. The biogas business there is an announcement from the government saying that they will set up 5000 biogas stations within the next five years, almost all the major players have announced their investment in this space. However, the technology is dependent on the bio source. At the moment, the known bio sources are landfill, urban waste, spent wash from distilleries, spread smart from the sugar plants, as well as poultry feed. But this is not a stable availability consequently, the kind of biogas compressors they need for each of them is changing. We have got several inquiries; we have finalized about 30 odd packages already. But the numbers will be clearer only after they stabilize.

Shubham: Okay, got it. And do we see any competition here?

K Srinivasan: There are all the compressor players who are trying to offer something, this is a technology that is evolving so unless the technology stabilizes, we can't say who is going to be the serious competitor. At the moment, there is no specific person who will say that he is leading in the biogas space.

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

Dhavan Shah: Sir my question is on the agreement, which you have highlighted in the press release with PDC Machine. So, what is our scope of work over here because, if I look at the PDC website, they are also manufacturing this kind of machines. So, is this like they will provide us the technology and we will manufacture over here, and we will supply in the domestic market or how is the scope of the work in this agreement?

K Srinivasan: Yes, so it's a good question, let me clarify. PDC Machines are leaders in the hydrogen compression space. In America and several parts of the world, they deliver complete solutions, which means they can even offer a compressor, dispenser and even in some cases, a local hydrogen generator which will actually take electricity and water and generate hydrogen at the site itself. So, there is a complete range of business related to hydrogen. Our specific objective in collaborating with them is to actually package their diaphragm compressor for the Indian market, the Indian market again and hydrogen is evolving, we still have to know how this hydrogen compression business is going to develop because in CO_2 consumption of hydrogen be it at the refineries or at the places where hydrogen molecule is required is pretty much stable. So, there the compression require is also understood what kind of compressors we need. Very high-pressure compression is required where the hydrogen needs to be stored or transported. This is an evolving space so we have now the capability to offer them packages for various application, our work would be to do the design, engineering, scoping, get the base compressors on PDC and offer a complete solution to the customer. This is our first phase of collaboration.

Dhavan Shah: Okay. And what would be the size of one compressor over here, because the base business is roughly one crore the larger one. So, here, what would be the size of opportunity for the domestic market?

K Srinivasan: We should allow this to evolve because depending if somebody is going to have a very small test compressor for just filling up a few bottles locally, et cetera then it could be an extremely small compressor, or it could be a huge compressor if they are going to transport cascades across the country. So, this has to evolve, and we will take some time before we can. That is one of the reasons why we are not even put out saying this will address such a market or this will be the unit price because this has to evolve for at least one or two quarters before we can start putting out numbers.

Dhavan Shah: And anything do we need to pay to PDC Machines like royalty or anything like that?

K Srinivasan: No, we don't have to pay them anything. We will buy compressors from them on an exclusive basis, and we will package them for customers in India.

Dhavan Shah: Got it. And in terms of the order pipeline, can you share what is the order pipeline in the beginning of the year for the domestic market and the export business across all three segments, and how much of that do we foresee can be converted into the orders for FY25?

K Srinivasan: Okay. Almost the entire order backlog that we talked off of 1,475 would be predominantly for domestic, export would be less than Rs. 50 odd crores. So, this is predominantly a domestic market requirement.

Dhavan Shah: Okay, but this is order book, but in terms of the order pipeline which you are saying that some orders are in the negotiation stage. So, any ballpark numbers, can you share about the domestic?

K Srinivasan: This doesn't make much of a meaning for you, because when you talk about pipeline under discussion till it becomes an order, it is still only negotiation. So, we have huge pipeline of orders under discussion in Middle East for a long time now, and many of them may not even happen during the year. So, I would rather not give a number for that.

Dhavan Shah: Okay. But if I look at the last three quarters number, in terms of the order flows, we are roughly running at roughly 380 odd crore quarterly kind of run rate in terms of the order intake. So, do you foresee this 380 odd crore quarter run rate can move up to 450, 500 crore, maybe two quarters down the line?

K Srinivasan: We have had a few quarters already where we are booked more than Rs. 400 crores of order, we expect because when we say that we will do Rs. 2000 crore in the next year or so, we need to get order book of at least about Rs. 500 crores a quarter, with all our new products and focus on domestic we should be able to get.

Dhavan Shah: Okay. So, you are confident about this thing?

K Srinivasan: Yes.

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

Ankur Kumar: Sir in the past calls we have been saying that our annual revenue tends to be 1.2 to 1.3 times the opening order book. So, on opening order book of 1,475 that would translate to around Rs. 1,800 crore revenue types. Would you agree with that possibility this year?

K Srinivasan: I don't know whether you have my business plan with you.

Ankur Kumar: Sorry, I don't have that.

K Srinivasan: Okay, you have the numbers.

Ankur Kumar: Because, in general past calls you have been saying that 1.2 to 1.3.

K Srinivasan: I said that on a lighter way, see you are absolutely right, we generally tend to do because there are orders that particularly for stay, et cetera we book and execute in very short notices. So, the target is very much around the numbers that you are looking at anywhere between 1700 to 1800 crores is what we would be.

Ankur Kumar: Got it is. And sir our raw material generally have been going up so, are we kind of booked things and so 17% to 18% margin can sustain or how should we look on that?

K Srinivasan: We will have to look at our input material cost in little different from what you would look at raw materials, except for our forgings and foundries we don't actually buy unprocessed commodity material, what we buy would be manufactured items, it could be controllers, it could be bearings, it could be parts of machinery. And we have running contracts, and we make these price arrangements before we quote and take up orders. That's the reason why we are able to control our cost and have some bearing on our final selling price. Because the final selling price is a tender base price. We can't change it once we get the order. So, we have also a similar kind of leverage with our buying. So, there is a back-to-back kind of an arrangement. So, we are not so let's say commodity price driven. It neither goes up or down very quickly.

Ankur Kumar: Got it. Sir so margin you are saying that margin kind of sustain conservatively?

K Srinivasan: Margin is largely driven by our product mix, and also on improvements in our processes, which allows us to sort of put things together more efficiently.

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

Darshil Jhaveri: So, just one, a bit maybe long term that we are targeting maybe about Rs. 2000 crores next year, which maybe we are already at the run rate of doing it maybe this year. So, maybe your longer-term vision after maybe three years down the line, what do we, any long term vision that we could quote, like because all our sectors are firing, so any comment on that would be great sir?

K Srinivasan: So, I have mentioned in a couple of other calls as well, and I will take few minutes to explain the whole thing. First thing going for our favor is that we are in a sector, capital good sector particularly in manufacturing, that is doing well, it is doing well in the geography we operate, we are dependent almost entirely on how India does. And so to that extent we are in a good place at a good time. Manufacturing is growing, capital goods in particular will grow even ahead of the manufacturing sector growth. So, that's a tailwind that's available for us. Second is, we are in a sector which is driven by a couple of major transitions, there is an energy transition out there and we will get to benefit from it. Be it from solid fuel to liquid to gas, any kind of gaseous form, be it natural gas, biogas, hydrogen, all this is really up our alley. So, there is an energy transition and we are in the thick of things as far as that is concerned. Then internal capability building ability to make our own designs, ability to make our own products is another advantage that we have. The fourth is our supply chain business. Most of our competitors in India have supply chains with extent between 7000 kilometers to 12,000 kilometers critical paths will then have to be all imported from different places, be it Europe, be it China. We are having a supply chain within 200 kilometers, all that I make is between Nashik, Saswad and Hadapsar. So, my supply chain is within 200 kilometers compared to competition who has to grapple with significantly long supply chain and are impacted by what happens in Red Sea, I'm not impacted by what happens in any other part of the world. I'm only largely worried about what happens in the area I operate. So, everything seems to be going in our favor. With that, I've been always saying that the market size is huge. Addressing it with a 20% growth year-on-year for a long period of time is something that is possible and very, very doable. So, that is what we are working on. And that is broadly what you are looking at. That would give you a good answer.

Darshil Jhaveri: Yes, sir that answers the question perfectly sir, thank you so much for that. And sir just in relation to our growth. Sir our margins as we say, are maybe being driven more by a change in product mix. So, with our forging and new products what is the aspirational margin, and can we now touch 20% is something that we could look at?

K Srinivasan: We have been saying this in other calls as well aspirationally we will get to Company first to 18 to 20. We can go higher than that but that's a tradeoff that we will take a call as we get to that between more aggressive growth as well as improvement on margin. So, there would be some kind of a tradeoff based on how fast we would aspire to grow as well as how big the margin growth can be. So, directionally getting 18 to 20 is the thing that will work on first step.

Moderator: Thank you very much. The next question is from the line of Sahil Sanghvi from Monarch Networth Capital Limited. Please go ahead.

Sahil Sanghvi: While I've understood what are the input components for you. There's a dip in the gross margins when I look at Y-o-Y or Q-o-Q basis, we ended at 44% versus 45% and 48%, Y-o-Y, Q-o-Q so any explanation on this front?

K Srinivasan: I will have to take Ramesh, the only thing if we are looking at a gross margin, not operating margin then there are several issue that we will have to come up, first is we take in a one time as far as the RoadRailer is concerned which is about 8.9 crores that we have taken. Also, you will find that there is a 4 crore they took in Q1 which is related to the employees thing, one time settlement of all the dismissed employees, et cetera. So, there has only been an improvement in the margin but let me ask Ramesh to check what you are asking. The next question we will come back to you.

Ramesh Birajdar: If you check with FY23 and 4th Quarter FY24 it is you are comparing the same thing what I am speaking 4th Quarter FY23 and 4th Quarter FY24?

K Srinivasan: Go ahead.

Ramesh Birajdar: Okay. This mainly change in the product mix where in the FY23 and FY24, where we are saying that FY24 quarter four, it is mainly we increase the CNG packages and not lower but stabilizing the O&M business and that is why it is reflecting the change in the ratio to RMSP raw material to selling price.

Sahil Sanghvi: Got it, that explains. And also if you would give me the split for Q4 when it comes to the equipment versus the packages split?

K Srinivasan: See we have been saying that we will get it to a 60:40 in favor of equipment, it has not happened yet we are still about 50:50.

Sahil Sanghvi: Similarly, can you give me the split of air compressors, refrigeration and processed gas for Q4 only, I understand someone else has asked this, but would it be possible or?

K Srinivasan: It is possible, but it is more safer to stay within a range because what happens these quarterly numbers are something that keeps changing. So, I would not give too much of weightage to it, it's still within the range that we talk of roughly 20, 25 for air, 30, 35 for refrigeration, 45 is for gas. So, just for your feeling yes, Q4 our gas packages were significantly higher than the traditional numbers.

Ramesh Birajdar: If you want, I can elaborate on this full year number from FY23 and FY24 full year number, the air compressor division which is roughly in the same range of Rs. 257 crores. But if you assess it is almost in the same range of Rs. 275 crores and major driven by these gas systems where we have got the major increase and of another non-reportable segment of transmission business where we have got the major improvement in the top line.

Sahil Sanghvi: My question would be, when do you expect the order booking for CNG stations to pick up would it be after elections, what kind of ground traction are you seeing on that front?

K Srinivasan: As I said, the order booking is there, clearance for shipping to install is what is waiting, so most of them have placed orders. So, we have orders, we have orders for CNG station, we have orders for Cālanā but, we need to get clearances as and when they have their site ready, they have their gas allocation and then we will ship it and commission them.

Sahil Sanghvi: The margins right, whenever that gets fixed?

K Srinivasan: It's very difficult to answer the question when they will give clearance, there are so many things like that's why I said, opening comments there have been so many promises, so many announcements, we are waiting for them to happen.

Moderator: Thank you very much. The next question is from the line of Digant Haria from GreenEdge Wealth. Please go ahead.

Digant Haria: Sir, my question is on the large gas packages primarily which we, last time you said that we do around 20 to 15 gas packages the total market size in India and in Middle East it is even larger. So, on this export side the negotiations have been going on for so long and if you can just give some idea of when do they fructify or do they not, do we change strategy there. And do we look at any other regions, any such color would be useful.

K Srinivasan: Domestic these 15 large packages and several smaller ones improvement that stays continues and we have fairly high visibility on this. We also win a significant share of these orders; we lose very few. In international business we operate primarily in the MENA region, Middle East, North Africa. We do not have such a clear visibility on how and how fast they finalize and who gets the order because we are one among maybe a host of participants, many of the orders don't even get finalized, some eventually we realize the EPC contractor bought it partly from China, partly he did it himself. So, there are, there is still a lot of market operating gaps that we are unable to understand fully. The market itself is very clear, that is also evolving, because a lot of what happened in the last two, three years were first time, because there was a crisis. And they all had to do things quickly. We won some orders; we lost a lot of them. This is evolving still. Now, I would say it's getting more and more to a steady state. But having said it, the last at least three months or so, practically no major order has been finalized for anybody. And even what people have finalized and announced, they are all being put on hold. So, there is an uncertainty out there. And that is coming from multiple reasons, so we have to wait and watch. I can't say that look, that's why when somebody says, tell me what is the pipeline and how many are likely to win, I don't have a ratio which I can share reasonably with you and expect it to happen. If I know that, look if I have a 2000 crore quotation now it's there, I'll get 10% I can share that with you. I don't have such ratio now.

Digant Haria: Alright, sir. That's, good enough and thanks sir. Second, for FY24 we see that, the proportion of air and refrigeration compression has gone down versus last year. And it's probably because the gas division has done much better. But in terms of these new launches the Khione screw compressors, so earlier we said that we might be able to launch around eight or nine SKUs and then the market acceptability was a little slower than expected. So, you can just give us some progress on this particular front, the Khione screw compressor?

K Srinivasan: So, the first part of your prognosis is correct that, yes the gas business grew faster than the other two within the same broad range that we have been maintaining, because that allows us to do the business modeling. So, it is within that range, but it is an area that yes, the gas grew faster the other two was relatively slower growth that's a fact. Several and the reasons are many, several of the new announcements that we made of product development which were largely in air and in the refrigeration area have not scaled up as quickly as we expected. But having said it, I also know that we have picked up several orders which will allow me to come back to the growth rate in this current year F25. So, it will come back, it's been a lag, but it is not a failure kind of thing. So, the products have not failed the products have not taken off as fast as we expected, but they are scaling up now.

Digant Haria: All right sir. And sir lastly, I don't know if this was asked earlier that what is our play in the compressed biogas like India is going to have 5000 plants and 100 plants Reliance is putting up. So, do we have any claim this compressed biogas plant the small 100 crore plant which are coming up?

K Srinivasan: Yes, so I've answered this, but I'll repeat it for you. Yes, we have gas packages for all kinds of bio sources. The technology that will be used would depend on the bio source and unfortunately, this is not fully stabilized and so it's evolving. We have compressors if people use PSA, we have compressors if they use molecular C. We have compressors if we use washing cleaning system. So, we have compressors for all ways of generating biogas. We have a full Jarilo range, we are only people who have customized biogas specific compressors. We are in discussion with almost all the major package builders so we are happy to be in this industry. You said it right, Government's announcement is 5000 biogas stations in five years. Hopefully a significant part of that should be our compressors.

Digant Haria: Right sir. Sir any ballpark of per plant what is the revenue opportunity if 100 crore is the total CAPEX in one biogas plant?

K Srinivasan: Like I said technology is evolving, I have compressors starting at Rs. 60 lakhs going up to Rs. two and a half crores.

Digant Haria: No, that's a good win, this number depends on what is a feedstock which is used right, whether it is the press mud or whether it is biogas?

K Srinivasan: So, the bio source will determine the technology that is used to clean it and process the biogas then the compressor comes in, there could be two compressors, there could be one then it depends on the optics, are they going to put it into the pipeline, are they going to fill it cascades at 250 bar and ship it around, so there are multiple variables out there. So, like I said, we have a compressor package system for every which way they go, but they should go somewhere first.

Moderator: Thank you very much. The next question is from the line of Abhineet Anand from CP Invest Management. Please go ahead.

Abhineet Anand: First of all, you talked about what is working in your favor as a sector and as a firm as well. And in that you mentioned the market size is huge and addressing with a 20% growth is a possibility. Here you are talking about the gas part right because ref and air compressor type of has been flattish for last few years. So, if you can throw some light in terms of how big is that gas part and are we gaining market share or something of that such that will be helpful?

K Srinivasan: Okay. So, if you look at the air compressor business, the Indian market is roughly (5000+) crore, our current share is less than 5%, there is enough headroom for us to grow so that's the first one. If you look at the refrigeration market, today we currently address only the cold chain ice plants as well as the hydrocarbon driven biogas packages. There is a huge play out there for commercial refrigeration, where we will eventually come up with several products to address. This industry also if you look at, I am leaving out the comfort, I'm looking only at industrial and commercial, that alone is worth about Rs. 3000 crores. So, look at the gas business if we split into two parts. One is the upstream, midstream and downstream that's a 2000 crore market, and that has got a whole lot of things, we are not in everything, but we are only into a relatively smaller part of that package. Then of course, there is the distribution of CNG gas, then there is biogas, then there is hydrogen. Now all these are growing areas so the market is evolving, there is not a specific number that you can put at this stage. But they are all significant in size. So, overall, as we said the market is huge. Now that, I'm only talking of India, and India is less than 2% of the global opportunity. If you have a robust winning product profile here, then we can aspire to take it to other parts of the world in a phased manner. We won't run all over the place to sell something. But we can do that in a phased manner. And that's how we strategize, when the other gentleman asked me, how do you see it on a medium term, India focused 20% is a reasonable number to look at.

Abhineet Anand: Okay, thanks. Second is sir in terms of, there are three numbers that you talked about one that will grow by double digit, which is obviously a very large range. Second, you did mention about because, exports we are not expecting much even this year. So, domestic you indicated a 20% growth and thirdly.

K Srinivasan: Overall, not only domestic.

Abhineet Anand: Okay, overall. And this 17 to 1800 that you talked about actually indicate somewhere around 25% to 35% growth. So, which one is the most realistic that we should be considering sir?

K Srinivasan: So, you must take the lowest as a regular thing and then quarter-by-quarter, we'll try and get better.

Moderator: Thank you very much. The next question is from the line of Manish Goyal from Thinqwise Wealth Managers LLP. Please go ahead.

Manish Goyal: Sir few questions. First on, just a clarification that in this we probably mentioned that the gas business saw decent growth in the current year. So, this was despite decline in the export revenues, what we saw in the current year by 100 crore.

K Srinivasan: Yes.

Manish Goyal: And is that number 790 crores for the full year?

K Srinivasan: No, we don't give a specific number for any of the three verticals. We said that we have, by and large been in the range of about 45%. And 40%, 45% is what we always give us a guidance. We don't give specific numbers for each and there is a reason for it. It's not that we want to hide anything from you. Internally when we track it let's say I do a lot of my biogas manufacturing and what I internally call as an air compressor division, because that is manufacturing wise a reciprocating compressor so it's so confusing to put out these numbers outside so we give a range within which these businesses operate. And that is more reasonable for an external person to understand. So, we have not given a specific number for air, refrigeration or gas.

Manish Goyal: Sorry, I probably was calculating from the number what Mr. Ramesh gave that Rs 257 crores for air and Rs 275 crores for refrigeration.

K Srinivasan: No, to the refrigeration actually what we externally topped off excludes like I said other things, so there is about 300 and odd number for that as well. So, that's why I said we got to be a little more careful. We will give you a range which is more meaningful.

Manish Goyal: Sure. Okay, sir. And sir on the revenue breakup wise. So, how much was it between projects and products for the Q4 and for the full year?

K Srinivasan: We give only for the full year, we don't give for a quarter like I said, because it again confuses the split is approximately 50:50 for this year. This year, there has been a clear movement towards more equipment, compared to our usual 40:60, this has moved towards about 50:50.

Manish Goyal: Okay. So, with a new product launches like for the centrifugal compressor, Tezcatlipoca and Atmos Aria, so how have we increase our addressable market probably in the recent past, and when you mentioned that we expect revenue from new products to increase from say roughly 6% odd to 15% over the next couple of years so just want to get a sense because on a 2000 crore number that would be nearly 300 crores revenue from new products. So, just wanted to get a sense that, probably from how we are looking to arrive at this number?

K Srinivasan: So, let me give you a few numbers, I said new product is what we launched within the previous three years. So, this year Cālanā, also remains a new product, it will probably stop being a new product the next year, next year 26. And Tezcatlipoca in 27. So, we have to keep understanding the new product is a continuously moving thing. This year if you look at the market, Tezcatlipoca centrifugal compressor market in India is roughly our estimate is anywhere between Rs 300 to Rs 500 crores, and this excludes what can go into oil and gas sector. So, that's the market size. So, when you are looking at an opportunity of building about 10% to 12% of new products in a sale, it's a continuous process, new products will continue to happen based on our IP creation. And as they scale up, you'll end up scale these numbers. Addressable market, we pick are generally for market significant size, each of the new product we take, generally tend to address markets anywhere between 100 to 500 crores.

Manish Goyal: Sure, okay. No, because the off the shelf screw compressor what we had launched with a smaller range ideally it's been very competitive and has been seeing a lot of imports from China. And we have just recently entered. So, just probably wanted to?

K Srinivasan: Your point is 100% right, India imports anything between 30,000 compressors or air instruments from China and package them. So, you can calculate how big that market is. And that's the market we seek to address because, these are markets which people in India have currently not making anything for. And if we were to become more and more India dependent as the Chinese price also keeps going up, you will find these are relatively easier market to address and break in once you have your cost positions right.

Ramesh Birajdar: In addition to this, if you see the talk by the MD, the biogas which is the upcoming market, and for that we are already ready with the compressor. And we shall be coming with this biogas packages or the system, we are ready to provide the whole package to them. So, before asking for any competitor we are ready, and we are ready to implement the entire biogas package to any of the Company here. So, well ahead of our competitors, we are ready with the product.

Moderator: Thank you very much. Due to time constraint, that will be the last question. I will now like to hand the conference over to management for closing comments.

K Srinivasan: So, let me thank all of you for your patience. I think we have had a very checkered year when we had poor sales for three quarters and then we started getting a better package for the last quarter. Hope that the current year that we are starting should be far more smooth as we go across so that the numbers are little easier for people to understand and appreciate. So, thank you all for your patience and hope to come up with good numbers in the next quarter as well.

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