# "Kirloskar Pneumatic Company Limited Q1 FY 24 Earnings Conference Call"

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**MANAGEMENT:** **MR. K. SRINIVASAN – MANAGING DIRECTOR, KIRLOSKAR PNEUMATIC COMPANY LIMITED**
**MR. SUHAS KOLHATKAR – CHIEF FINANCIAL OFFICER, KIRLOSKAR PNEUMATIC COMPANY LIMITED**
**MR. JITENDRA SHAH – COMPANY SECRETARY, KIRLOSKAR PNEUMATIC COMPANY LIMITED**

**MODERATOR:** **MR. AMIT SHAH – ANTIQUE STOCK BROKING**

**Moderator:** Ladies and gentlemen, good day and welcome to Kirloskar Pneumatic Company Limited Q1 FY 24 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0'on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Shah from Antique Stock Broking. Thank you and over to you, Sir!

**Amit Shah:** Thank you, Seema. Good evening, everyone. On behalf of Antique Stock Broking, I welcome you all to Q1 FY 24 post earnings call of Kirloskar Pneumatic Company Limited. To discuss the results from the management, we have Mr. K. Srinivasan, Managing Director and Mr. Suhas Kolhatkar, CFO of the Company. I will hand over the call to the management for the opening remarks, post which we can open the floor for Q&A. Over to you, Sir!

**K Srinivasan:** Good evening to all of you. Before we go to the performance, I would request my colleague, Mr. Jitendra Shah to read out the safe harbour clause, please.

**Jitendra Shah:** Thank you, Sir. Good evening to all. The presentation uploaded on the website and discussion on the financial results during the 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 measures, which taken by the Company in tackling them, as indicated during the discussions. Thank you.

**K Srinivasan:** Once again, Good evening to all of you. The FY 24 started off on a rather sedate note as was expected. We had mentioned even earlier, that our order booking in the last two quarters was relatively low and consequently, our expectation from the first quarter was also muted. However, the market activity levels were at its peak. We had record order intake in the first quarter. The order booking during the first quarter has been encouraging with several large offers still under finalization, which is happening as we talked, and this will benefit the Company in achieving the planned sales growth for this financial year.

The sales for the quarter were at Rs. 242 Crores as compared to Rs. 272 Crores of the previous year, clearly down 10% compared to the first quarter of the previous year. Lower off-take in CNG compressors still continues. As we speak, we see no improvement in this and we expect this to get better only from the second half of the year. The profit before tax grew from Rs. 21.72 Crores to Rs. 23.5 Crores, a growth of 8%. Profit after tax was higher by 10% as compared to Q1.

Export sales at Rs. 12 Crores was Rs. 31 Crores lower than the last year and this is really one large package that we had shipped out last year. Without that, it was by and large about the same sales as the previous year. We expect exports in this full year to also be lower than the total export of last year of Rs. 177 Crores. This is coming largely out of the order bookings still to happen for the further sales for the year in exports.

Definitely this year, the export sales will be lower than last year, but hope to see more order flow to come in, so that we have a good export for next year. Domestic sales growth, however, will more than compensate in the next three quarters for the lower exports and this will ensure that, we have a growth over the previous year in terms of the overall sales.

As a business – Air Compressors, Refrigeration and Gas Compressors all saw significant order inflow. The overall order bank at the end of Q1 is over Rs. 1,350 Crores. This is some kind of a record, much higher than the beginning of the year, which was Rs. 1,150 Crores. Clearly, this will help us to achieve our sales for the year. The capex spent so far, including WIP, is about Rs. 12 Crores. This includes the forging and fabrication facilities that we are setting up at Nashik, which is nearing the commissioning phase.

We will continue to invest in capacity and capability building to meet our growth aspirations. One of the bright spots of this quarter was the improvement in our working capital management. The operating working capital as on July 1, 2023 was Rs. 212 Crores as compared to the beginning of the quarter, which is Rs. 283 Crores. We expect this to enhance and get better as we work forward.

Cash generation from the operations was at Rs. 75 Crores. Again, this helps us to perform better going forward. This also indicates that the quality of our business has been good. We are able to sell and collect our money.

Let us now, discuss the results by product lines.

Air Compressor business: The Air Compressor business continued to grow steadily in delivering superior solutions to various niche applications. We have started receiving orders from the Tezcatlipoca range of centrifugal compressors. This is by far the most efficient, oil-free, dry air compressor in the market. We expect this to become an industry standard going forward. The sales of reciprocating compressor packages for various critical applications and sales of standard screw compressors were as usual.

Refrigeration and Compression Systems: It was a good quarter. We received the first big order from Turkey for Bare Shaft Ammonia Compressors to be used in cold chain ice plants. We expect this to open up new markets for us in the MENA region. Sales of these compressors in India too, have seen an uptick with more of cold chains and ice plants opening up. However, the newer plants are all coming up largely with screw compressors and here the Khione screw compressors will be a great advantage as it scales up. Significant orders for refrigeration packages and petrochemical and fertilizer plants have been received and they will be executed in the next three quarters.

Process Gas Compression Systems: We did not receive any large export package in Q1. However, this segment did pick up significant orders for the domestic market. This segment did not have export packages during the quarter. Consequently, the sale was also lower.

Clearances to install CNG packages still continues to lag and this has only exacerbated the problem that we are facing in terms of top-line growth and also it adds to our inventory challenge. However, the silver lining has been the finalization of several packages for execution in India for the next four quarters. We also see more orders for the Calana Booster Compressors and their installation coming up, and this is clearly a bright spot in the next quarter.

O&M service business continues to be normal. Also, the payment from these customers have improved.

Outlook for Q2: The global economy has generally slowed down, with commodity prices moderating. This would mean more stable prices and lower exports for us. Margins would remain good. The Indian market for our products remains strong. We are in the midst of a technological transition in the industry, as far as energy source is concerned, which means there is still some amount of uncertainty, how the energy basket will change. However, the gasification of the energy basket is clearly a way forward, be it natural, biogas or hydrogen and this bodes well for our compression packages in the Gas and Refrigeration space.

We continue to remain positive on the acceleration and installation of CNG packages by the gas companies to meet their own plant commitments. Strong growth in order intake in the first quarter and significant order finalization in the pipeline gives us the confidence that, we will deliver the sales growth in the current fiscal. We will benefit from the new range of products like Khione, Calana, Tezcatlipoca and hope to see that, this would help us to change the product mix between packages and products.

We are confident that, we will be able to regain our growth momentum after the slip that we had in Q1 and hope to deliver double-digit growth. We remain committed to our aspirational target of Rs. 2,000 Crores in the next two years. Now, I request Mr. Suhas Kolhatkar, CFO, to take forward with the financial numbers.

**Suhas Kolhatkar:** Good evening, ladies and gentlemen. I hope you were able to go through the results that we posted on both, NSE as well as BSE websites yesterday, after the conclusion of the Board meeting. We have also uploaded the presentation on the results of our Company, on the Company's website. However, for the benefit of those, who probably did not get a chance to have a look at those, let me summarize quickly, what results we achieved in the first quarter of the current fiscal.

Sales for the quarter were lower as compared to Q1 sales of the previous year. At Rs. 242 Crores, it registered 10% drop as compared to the Q1 sales of the previous year. The drop was essentially attributable to the export business in the current quarter, which was Rs. 12 Crores as compared to Rs. 43 Crores in the last year.

CNG business also remained a little muted during the current year. However, the domestic business in Refrigeration and Air Compressor actually got our overall domestic sales equal to that of last year. With other income of about Rs. 5.77 Crores, our total income for the period was about Rs. 248 Crores compared to Rs. 274 Crores. The rise in other income is attributable to the financial income, which may be sustainable to some extent in the coming quarters. This was possible as we reduced our working capital by almost Rs. 75 Crores during the first quarter and the surplus that was generated was judiciously kept aside and invested in the mutual funds and deposits, which generated this other income.

Mix of projects and products which more or less remained at 50:50 brought down the material cost to 51.2% as compared to 58.6% in Q1 of the previous year. You would recall that, we had said that in the Q1 of the previous year, we had one export order with practically negligible margin, as it was taken strategically to mark the entry in the Middle East market in oil and gas sector.

We expect material cost to remain more or less at the current level, should the product mix remain at this level. ERE was higher at Rs. 42 Crores compared to Rs. 37 Crores. Liberal increments and promotions were given to all deserving employees. We are at 17.2% of sales as against 13.7%. We hope to go closer to the previous year's annual target of about 12%. There is no interest cost for the current quarter as the Company is a debt-free Company.

At this juncture, I would also like to state that, the Company has a net cash and cash equivalent position of close to Rs. 250 Crores as compared to about Rs. 170 Crores last year. This was of course, after considering a capex that we incurred of close to about Rs. 42 Crores in the last year and payment of dividend of Rs. 32 Crores.

Depreciation is in line with the previous year and addition to assets that took place during the quarter. Other expenses are mix of fixed and variable costs and are of 20.7% compared to 17.4%. There is no significant variation in the level of expenditure, particularly where the fixed cost is concerned. However, you might see a rise, that rise is attributable to the variable cost related to the sales, which does not constitute the material cost.

EBITDA in Q1 has improved to 13% compared to 10.9% in the previous year. Consequently, PBT for the Q1 has also improved to 9.5% and stood at Rs. 23.5 Crores compared to 7.9% of Q1 in the previous year, when it stood at Rs. 21.7 Crores. The growth in PBT was close to 8%. PAT also rose to about Rs. 17.9 Crores, which represents 7.2% compared to Rs. 16.3 Crores representing 5.9% in the previous year. The growth in the PAT was close to 10% plus.

Company issued 20,200 Equity Shares during the first quarter under its Employee Stock Options. Consequently, the paid-up share capital has increased from Rs. 12.931 Crores to about Rs. 12.927 Crores at the beginning of the quarter. These 20,200 Equity Shares, which we issued in the quarter are in the process of getting listed on the stock exchanges.

Basic EPS improved to Rs. 2.77 per share in the current quarter compared to Rs. 2.52 per share in the Q1 of the previous year. With 90% plus revenue coming from the compression segment, it remains the only reportable segment. The segment profitability improved to 16.5% compared to 15% of the Q1 of the previous year.

Order booking during the quarter was close to about Rs. 450 Crores. As a result, the Company has a strong order book of Rs. 1,300 Crores plus as against Rs.1,200 Crores plus in the previous year. Capital employed in the compression segment was brought down by about

Rs. 42 Crores and stood at Rs. 263 Crores compared to Rs. 305 Crores at the beginning of the year. This speaks well about the working capital management of the company.

Similarly, the un-allocable expenditure has also come down from Rs. 16.4 Crores to about Rs. 12.75 Crores. As indicated earlier, during the quarter, the business from projects and products was more or less, similar at about 50%. With this, I have covered most of the financial highlights of the Company. We are now open to take any questions in this connection.

**Moderator:** Thank you very much. We take the first question from the line of Mr. Mahesh Bendre from LIC Mutual Funds. Please go ahead, Sir.

**Mahesh Bendre:** Thank you so much for the opportunity. Sir, I missed the number, you said Rs. 31 Crores of export this quarter, right?

**Suhas Kolhatkar:** No, it is Rs. 12 Crores of export in this quarter. We were down Rs. 31 Crores compared to the corresponding quarter of the previous year.

**Mahesh Bendre:** So, last year it was Rs. 43 Crores?

**Suhas Kolhatkar:** We were at Rs. 43 Crores.

**Mahesh Bendre:** Last two quarters, we have seen the softness in the performance, which is in line with the user industry. So we are down 10% sales in both the quarters. So looking for the rest of the year, what kind of growth, we anticipate?

**Suhas Kolhatkar:** If you recall our guidance given in all three quarters of the last year, we had said that, we will grow by about 20% for the full year, despite the 40% growth quarter-on-quarter that we achieved in the first three quarters. The order book that we had was laid in such a manner that we knew precisely what orders we will execute during the first, second, third and fourth quarter and that is why, we always gave a guidance of about 20%. We still maintain that guidance for the current year despite a 10% drop in the top line for the current year.

**Mahesh Bendre:** One qualitative input would like to have from you that, business environment, what was the six months back, has there been any change that we have seen in terms of inquiries and order inflow?

**K Srinivasan:** See, you'll have to look at it sector wise. Obviously, business environment is something that keeps changing. We are predominantly dependent on few large sectors like the oil and gas, primarily, for our export and for our gas business. If this is definitely seeing changes happening particularly, if you're looking at the city gas distribution projects, there is a significant delay in most of these installations and consequently, those installations are getting delayed.

Quarter-on-quarter, we are seeing less number of CNG packages going out compared to what we did earlier as well as what we are planning to do. But at some stage, this has to change because, there is a commitment these gas companies have put out saying that, they would have a certain minimum installation plan and so when it flips around then you'll get this big, hopefully, we'll get this big revival of demand and then, we should obviously catch up so. We are hoping that H2 is going to be a busy period that we will catch up. We have orders, but there are no clearances to ship.

Now, as far as, the international business is concerned, we were primarily focused on the MENA region. This year, we did announce that, we have taken a senior person and we are moving to also address Southeast Asia. So we have got a couple of small start-up orders from this area.

Generally, these things start with small ones and then it scales up. But the good thing about it is, these two or three small orders that we picked up in Southeast Asia will all get completed in this year. And hopefully, that should add to a new addressable market going forward. So to answer your question on markets, yes, some markets are still quiet. But we hope to see them all get busy in the next two quarters to three quarters.

Now, as the market changes, our order booking changes. Our execution cycles actually follow this order booking. So as it is, the first quarter was very busy. We had significant order inflow, so that should keep us busy on Q4 and Q1 next year. So that's the way, it goes.

**Mahesh Bendre:** Thank you so much, Sir.

**Moderator:** Thank you, Sir. We'll take the next question from the line of Mr. Naman Shah from Monarch Network Capital. Please go ahead, Sir.

**Naman Shah:** My first question would be you talked about reducing the un-allocated expenses in one of your previous conference calls. So while it has reduced, when do you expect it to be around 50%? Can we expect it to be this year or probably next year?

**Suhas Kolhatkar:** We had indicated to you that, un-allocable expenditure consists of expenses on non-reportable segments, which consisted of two major segments. One was, I would say, product line, say, the Gears which are now integral part of our compression systems and secondly, the RoadRailer, which we had talked about, that was adding to this under the un-allocable corporate expenditure.

As indicated, we are in the process of ensuring that, the RoadRailer business gets monetized during this Q2 and we should be able to get this expenditure down compared to the previous year. The trend in terms of the reduction in, I would say, or improvement of contribution from the gear business is already seen in the Q1, when we have reported Rs. 1,275 Lakhs un-allocable expenditure compared to Rs. 16.45 Crores. So, this is the first step towards the reduction of the un-allocable cost.

**Naman Shah:** Second question would be, you talked about your CNG, the clearance for installation of CNG packages being muted. So when do you expect to get the clearance and if you get that clearance, would that lead to an increase in the margin probably?

**K Srinivasan:** These orders have all been booked, so the margin obviously is not going to change. It's going to only get worse as we delay the installation. We are sitting with significant inventories. We are waiting for clearances so that these can be installed but we will see how, it goes. To make predictions, it is something, which is clearly not what is in our control. We expect definitely by all sense of what has to be done in the gas market that the city gas distribution companies are bound to do a certain minimum program and that will force them all to start installing at least in H2. And then we will be well prepared to meet all those requirements. So we have to play this out. There is no easy answer for this.

**Naman Shah:** So, sir, do you expect Q2 to be better than Q1?

**Suhas Kolhatkar:** Yes, we do. It give us a guidance of growth over the previous year and also for the current year. So, with 10% drop in Q1, unless we do a better and better performance over the previous quarters of the previous year, we won't be able to demonstrate that growth and which we believe with a strong order board in hand, we should be able to go closer to that.

**Naman Shah:** This quarter, could you give me the numbers for how much as a percentage of sales were our compressor business and how much was the rest of it?

**Suhas Kolhatkar:** Our overall business combination remains the same. We have about 20% to 25% coming from Air Compressor, about 25% to 30% coming from Refrigeration Compressors and about 40% to 45% coming from the Gas Compressor. So that is how the overall 90% plus business comes from the Compression segment and balance from the non-reportable segments. So that combination remains more or less same even the order board has remained in the same proportion.

**Naman Shah:** Okay. And you got an order from Turkey for the refrigeration?

**K Srinivasan:** Yes. These are for Bare Shaft Ammonia Compressors for export. The partner with whom you are working would import these compressors, complete them as packages for delivery in the MENA region.

**Naman Shah:** Thank you.

**Moderator:** Thank you. We take the next question from the line of Mr. Mihir Manohar from Carnelian Asset Management. Please go ahead, Sir.

**Mihir Manohar:** Thanks for giving the opportunity. Sir, largely wanted to understand, we are seeing CNG part of the business. At the start of your commentary, you said that will pick up from second half onwards. Even on export side, we are seeing a lower business versus last year. So just wanted to get a sense, what is giving you the confidence, is it the existing order book, or you are also taking new orders, that we will be able to achieve the guided reach, which has been there. And just a clarification on that, at the start of your comment, you mentioned, double digit growth versus earlier during the last call, about 20% plus growth. So if we can provide some clarity, is there a revision in guidance or we still continue to maintain a 20% plus growth? That was my first question.

Second question was just on the CGD part, the natural domestic gas prices are coming down, even the international prices are coming down. And now the dispensation date has also passed on. So, what is actually restricting the CGD companies from expansion? Just getting it difficult to understand, why is that happening? So if you can provide some clarity around that, that will be really helpful.

And my third question was on the RoadRailer part. If let's assume, the RoadRailer gets hived off in second quarter or may be third quarter, what kind of margin benefit would be there from RoadRailer ? So just wanted to get an understanding around that. Thank you.

**K Srinivasan:** As far as the RoadRailer, let me start with your last question first. We are, like we have been saying, we are under discussion, this is an active phase. So, we can talk about an announcement only after the event. So let this come. So that's why, I said by Q2 or Q3 we should see it. It will go through two phases. It may not be a sale of a business, so we'll have to announce it only after it happens. Let's see how it goes. And depending on how we structure it, that will determine how much of the cost that we have seen in the un-allocable that can be taken off in the next couple of quarters. So well, let it happen, we'll announce it.

Now as far as our confidence, this is your first question, as far as our confidence about growth, we are sitting with probably the highest order bank that we have ever had. We are sitting, like I said, the sales was low, but the activities are at its peak. We finalized more orders, almost twice as much orders in Q1 of this year as compared to Q1 of last year. So, we are sitting at about Rs. 1,350 Crores of order. We are pretty busy as far as we are concerned, definitely in Q3 - Q4.

Now, Q2, we are planning today to give a growth of at least 7% over corresponding H1 of last year. So H1 to H1, we want to be anywhere between 7% to 10% higher and then going forward with a busy Q3 - Q4, we should be nearer to the 20% that we are talking of. We are not changing the guidance. We are now being a little more careful in giving exact numbers but we still are not around that number. That is what we are talking of. Getting there to the 20% is what we are looking at. And at the moment, the confidence level is that, we should definitely be able to do it. So that answers your second question as well.

**Mihir Manohar:** And just on the CGD part, the natural gas prices, both international and domestic have come down?

**K Srinivasan:** As far as the gas prices are concerned, there has been a reduction at the point of sale of about Rs. 6 per kg. This is not significant. The actual use of gas engines, etc., are improving. You see more advertisements for cars with CNG, etc. That's coming up. Now, what happens is, as the demand picks up, the gas companies would first rush to put in, what are called as Booster Compressors, because that is immediate. They just need to put this Compressor, even without a gas pipeline being in place.

Consequently, they can start delivering gas to the customers. This is going to be the first thing that's happening. And we see this already. We are getting more finalization of Booster Compressors, which is really not a huge paying thing for us, as we've always been saying. So they're much cheaper, and they don't make big margin, but that is going to keep us busy, hopefully, through Q2 and even into part of Q3. But the CNG packages itself means that, the companies have to get on and install the pipelines. The gas pipelines have to be installed.

Now, that's a longer cycle thing, and people are taking their own sweet time in putting these pipelines because that's a capex creation. There are approvals required to dig up the place and lay the pipelines, etc. That is taking time, will take time. That is what happens and hopefully, we should see that happening with all these inclement weather and it is also adding to the problem. But like I said, I don't want to double guess this. H2 should be good, that's what we're planning.

**Mihir Manohar:** Thank you very much, Sir.

**Moderator:** Thank you. We'll take the next question from the line of Mr. Dhavan Shah from Alpha Accurate Advisors, please go ahead, Sir.

**Dhavan Shah:** Thanks for the opportunity, Sir; my question is on the export side. In the last conference call, you mentioned that, the export order book was roughly lower than about Rs. 50 Crores. So how has been the number for this quarter end, in the export business and also in the last conference call you mentioned that, some of the orders were under negotiation for the export business, which is fairly large in terms of the order value and this quarter also, it is still under the negotiation. So what is causing the delay in terms of the finalization of this export business? And when can we see the order flow, actually order flows coming from the export side?

**K Srinivasan:** As we said most of our large export orders are still in the oil and gas sector and they're in the MENA region. The finalizations of orders in that phase, that's still very new to them, not finalizing quickly. They have come to the new normal. They are looking at arrangement of funds. Any of you reading that, you will realize that, they are also taking their time to finalize with the muting of oil prices, etc.

Now, we still are discussing a fairly large number of inquiries. We have passed off one or two where we think that the price margins are very, very low and we don't want to do them. As we speak, our order on exports is above Rs. 50 Crores, after even the first execution of Rs. 12 Crores, it's probably around Rs. 65 Crores to Rs. 70 Crores as we speak. But the order pipeline that we are negotiating is well over Rs. 800 Crores, so there's a lot of order that we are talking about and they will all happen in a phased manner. They are not going to all happen this year.

Some of them, most of them will go into next year. But we are going to compensate for whatever shortage, we are going to have in exports with domestic sales. That's what I said in the opening comment. Exports are going to be this year definitely only around Rs. 100 Crores. Most of it we are going to compensate from domestic. Domestic is very, very strong and we'll compensate with that.

**Dhavan Shah:** How has been the execution cycle across the three segments, like the Air Compressor, Refrigeration and Gas? In terms of the month wise, one order, is executed within how many months? In air compressor, it is like six months to seven months, or if you can help us, in the execution cycle.

**K Srinivasan:** A large export package, or even a domestic package, which involves significant amount of imported equipment, motors, etc., can take anywhere between 10 months to 12 months. But domestic orders, even in packages, they tend to accept far more domestically manufactured elements, motors, engines, etc.

Consequently, they tend to get exported between 6 months to 8 months. 8 months is a normal cycle for packages. Equipment businesses can be anywhere between 8 weeks to 16 weeks. With there is no major shortage today as we speak, except for some transducers, etc., that are giving some trouble. Most other items or the supply chain is relatively stress-free at the moment. The prices are fairly stable. So that is why, we still think that, we will do execution as planned.

**Dhavan Shah:** Thank you.

**Moderator:** Thank you, Sir. We take the next question from the line of Mr. Viman Shah from ITI Mutual Fund. Please go ahead, sir.

**Viman Shah:** Thanks for the opportunity. Question number one is, you are, of course, at a record order book, but within the order book, can you help us decipher, are by construct, is it slightly aligned to better margin products and packages as the case may be, if you can just help us understand that?

**K Srinivasan:** It's a highly competitive field and most of these packages are based on both being technically acceptable and commercially competitive. So we have to look at both. We are doing most of these packages, large packages are going to be in the refrigeration space as well as in the oil and gas space in the domestic market. We are technically acceptable and we are commercially competitive. The margins would be, like we said, the compression segment, EBIT margin of 18% plus is what we are targeting and that will be achieved.

**Viman Shah:** And a related question would be also, we have, as opposed to last two years- three years, we have better products coming up, especially even new offerings like oil-free screw and ready possibly with the Centri. and so on and so forth. So can you help us understand, is the initial order and initial response in the new products also reasonably strong?

**K Srinivasan:** Yes, so we actually, just a small clarification, we actually don't have an oil-free screw at KPCL, but what we have launched is really the centrifugal compressors, which inherently tends to be dry air oil-free. And that's picking up. Now, the challenge that we have is all our new products, whether it's the Calana booster or the Khione refrigeration screws or the Tezcatlipoca centrifugal compressors, their acceptance has been good. But the scale-up has been slow. And this is pretty normal in the capital goods sector.

It's generally an F curve. It takes a lot of effort in the early days, and the results are pretty muted. And then once you hit the tipping point of the ramp, then the volumes start coming with even modest effort. Now, we have still not hit the tipping point in any of the three. The one that is likely to hit the tipping point for rapid scale-up is going to be first the Booster Compressors, because there we have almost 100 compressors running at the moment.

And there, like I said, the gas companies would be also under pressure to quickly show coverage and with the CNG packages requiring pipelines to be made, the quickest way for them to handle the coverage part of it is to go in for the boosters, which means, even if it is not a great product for us in terms of both price as well as the margin, that's going to be the one that scales up the fastest. But the other two would be far more profitable and take time, but it's going to be over the next three quarters to four quarters.

**Viman Shah:** So when you say other two, it is the Centri. you are referring to?

**K Srinivasan:** No. That's the product. It is the Tezcatlipoca centrifugal compressors as well as the Khione refrigeration screws.

**Viman Shah:** Perfect. And in some of the interactions, possibly if you can just clarify, we were indigenizing and trying to develop our own oil-free screw. So I'm slightly confused that, we were in the process and I thought, we were almost there?

**K Srinivasan:** You're right, if you see several of our announcements, we did say that, we have tied up with an industry institute collaboration for making the oil-free screws and this is a 24 months project, co-funded by the ministry of heavy industries. We are working on it but this is not a product that has been launched yet.

I must clarify, there are oil-free screws in the market from others and probably that is why this gives you some confusion.

**Viman Shah:** As a related question, could you give us some sense of the pipeline as well and the competitive intensity?

**K Srinivasan:** Pipeline, I did mention export pipeline is over Rs. 800 Crores of orders under discussion. I won't even use the word negotiation. We have to get there. Some of them are in the advanced stage of negotiation as well. Domestic order pipeline should be even bigger, but there we get to talk about is only when we start getting to the first level of technical discussion, when clarification is completed. So order pipeline relatively remains strong. We are having the confidence that a significant part of it, at least a higher percentage of what is under discussion will get finalized and allow us to do the numbers that we are looking at.

**Viman Shah:** Thank you.

**Moderator:** Thank you, sir. We take the next question from the line of Mr. Mahesh Bendre from LIC Mutual Funds. Please go ahead, Sir.

**Mahesh Bendre:** Sir, just one follow-up question. In the first quarter, we have declined by 11% on top line. Now we are talking about 20% growth this year. So next three quarters, cumulatively, we should be able to grow 29%. So is it based purely on order book or is it that, we are expecting product business will also pick up?

**K Srinivasan:** First quarter, we are down roughly about 10%. By H1, we expect to be anywhere between 7% to 10% better than the H1 of the previous year. Then, we have two quarters, where we expect to get to almost a 20% growth for the full year. That means, you are right, we are going to do something like about 24% to 25% growth compared to the corresponding quarters.

I think that is a confidence coming out of two things. One, is we have order bank. Two, is we are also in the process of negotiating some major orders. And the third one is we are expecting clearances for all the CNG and other packages which are now being kept ready and waiting to be shipped. Now, there are three, four things based on which we are making this commitment. We would see how it goes. I think, we will have to take it quarter-by-quarter. If we do our first level of getting 7% to 10% up on H1 I think, we are on the way up.

**Mahesh Bendre:** Sure, sir. All the best. Thank you so much.

**Moderator:** Thank you. We take the next question from the line of Mr. Amit Shah. Please go ahead, Sir.

**Amit Shah:** My question was more on the Khione screw compressors that we are planning to launch. So, what's the update on that particular business? What's the kind of traction that we are witnessing over there, any orders that we have booked? And secondly, also on the green hydrogen side of the business, you are talking about that you are developing a compressor in association with IIT, Mumbai. So, any update on that particular front whether the product has been developed or still under development if you can throw some light on that?

**K Srinivasan:** The Khione refrigeration compressors, screw compressors were launched last year. We started with one model. We now have nine models in a phased manner coming up. Five of them are already there, four of them yet to get in. Now, as far as sale is concerned, it happens like I explained, it happens in two levels. First is, we sell the Bare Shaft Compressors to what are called as OEs. And the OEs complete the packages and then install it at the ice plant or the dairy or the food processing plant.

Now, this cycle takes from the time we hand over a Compressor to the OE to actually have it working anywhere between 6 months to 9 months. So, the current ones are all under installation. We have not had a great set of orders at the moment. We have a few orders that are being all under installation. We expect from the kind of enquiries and the kind of demand that we see for similar products that are being imported, that this could again have to take a significant value coming up once we cross the tipping point.

So, we hope to see again in the second half significant traction. At the moment, there are very few orders that we have executed and few more being discussed. That is as far as the Khione is concerned.

Now, the next question you asked is on green hydrogen. Now, we do not specifically look at whether it's green, blue, gray hydrogen because we are agnostic to it. What we do is, we make compressors for handling hydrogen. At the moment, we have reciprocating compressors for handling hydrogen at the refineries. This has been running for quite some time, and they are basically used in diesel refining. Now, the new compressors that we are developing is for higher pressure storage, which will go anywhere between 350 bar to 700 bar pressure, which means this hydrogen after compression can be stored and transported. Now, this compressor is under development with, IIT Bombay. First phase has been completed in terms of mechanical scoping. We are now getting into building the prototype and hopefully we should have a modular design where we can make for pressure anywhere from 300 bar going up to 700 bar and we should have this in the next 18 months.

**Amit Shah**: And sir, on the order inflow for the first quarter has been very, very strong, Rs. 450 Crores approximately. So, which are the areas, barring the CGD network and CNG station, which are the areas where you are witnessing such strong traction and if you can highlight, which are the areas going ahead where you believe these orders will flow in for?

**K Srinivasan:** The big orders that came in were all in the oil and gas based domestic. These are all big ticket orders, packages, domestic markets, and also from the petrochemical including fertilizer. So, this is where we picked up all our big orders from.

**Amit Shah**: And so in the overall scheme of things for a particular Greenfield project, what would be the proportion of our scope of work in the compressor package, if you can highlight that as well, that would be helpful?

**K Srinivasan:** Very, very difficult because see, we are talking of Greenfield, of what - scale and scope. It's pretty tough. We won't be able to, because it could be an offshore platform. It should be or it could be an off-gas collection package. It could be upstream, downstream. So, it's almost impossible for us to put a percentage against the project because the project scopes would be different.

**Amit Shah**: Thank you.

**Moderator**: Thank you sir. We take the next question from the line of Mr. Dhavan Shah from Alpha Accurate Advisors. Please go ahead, Sir.

**Dhavan Shah**: Thanks for the opportunity again, sir. So, my question is again on the order book side for the gas business. Can you share the order book number for the CNG package and the booster compressor at the end of first quarter?

**K Srinivasan:** I don't have the exact number. All I know is they would be above 100, this includes both the Booster and the CNG package.

**Dhavan Shah**: Okay, so basically I was trying to understand the math in the last conference call you mentioned that roughly 250 CNG packages and the booster will be supplied this year which can give us roughly Rs. 400 Crores kind of the revenue visibility. So, are we on the track for these two things, for this current fiscal?

**K Srinivasan:** No, so far no, because this is 250 each. We were hoping to do 250 CNG packages and about 200 at least of Boosters. The best we have done in CNG packages was about 210 - 220 packages in a year. We are hoping to do much more than that. So, we are nowhere near the number that we are looking at.

**Dhavan Shah**: Okay, then which segment can give us the confidence that we will end up with the 20 % incremental growth for FY 23 because the export business itself that will be roughly Rs. 100 odd Crores versus Rs. 170 Crores last year. And we don't have the major business for this two segment also. So, what gives us the confidence?

**Suhas Kolhatkar:** You have been tracking our company for a long and we always have in our order board a mix of product and the packages. Now products are -- some orders are something which keep on happening and keep on getting booked over the period across the year where the delivery schedule is very quick or the time required for delivery is very small may be ranging from 6 weeks to 8 weeks. So, such type of orders keep coming particularly in Refrigeration compressor, Air compressor, etc.

CNG compressors there have been little slowdown for the time being, but we believe that it will pick up substantially in the quarter, in the second half and that is how we are keeping ourselves ready with the inventory and the packages built so as to deliver it on time. Second aspect is last year if you look at, which we spoke about, we had an order board was on July 1, 2022 about Rs. 1,225 Crores. Today, we have an order board of close to Rs. 1,300 Crores plus with no exports, no exports orders, maybe about Rs. 25 Crores - Rs. 30 Crores export orders.

Last year, we had more than Rs. 170 Crores export orders and that gap has been filled by the domestic order booking which will be due for the delivery. We have in the past given you an indication based on the spread of the orders. Similarly, we believe that current year also gives us a confidence based on the current order board and the expected orders that happen for the product during the quarter to deliver the numbers that we are talking about end of this year. Of course, every industry today is talking about unforeseen circumstances or the effects of elections that might happen at the end of or in quarter four etc. Given the situation normal, the economic situation normal, we should be able to deliver the growth that we are talking about.

**Dhavan Shah**: Okay, but the percentage contribution, then it would differ. The gas business would not contribute roughly 40% to 50% odd in the order backlog, it should be in the lower number and and refrigeration?

**Suhas Kolhatkar:** Even today we have close to about 60% orders from the gas, from the pending order board.

**K Srinivasan:** I think the broad guidelines of 40% - 45% from the Gas Compressors, 30% - 35% from Refrigeration Compressors, 20% - 25% from Air Compression System, this will be by and large around the same ratio. It will not change by too much. What we are not getting in CNG, we are trying to do more by the packages that we are doing. Like I said, what is on hand are all large domestic packages which we hope to execute by Q4. Generally, we find domestic packages can be executed little faster than export packages because of the number of inspections and approvals that is required in export is much larger.

So, we will tend to do it in about 2 months to 3 months faster. So, hope to do most of it before end of the year. Barring unforeseen circumstance, we are reasonably confident that we will deliver what we have promised. I think the best way is to actually look at how we deliver in Q2 and then we will have more confidence to take it forward from there.

**Dhavan Shah**: And just last one on the order inflow side. So, based on the 20% guidance I think, we should do the quarterly order inflow run rate of similar to first quarter, which is roughly Rs. 400 Crores to Rs. 450 odd Crores. So, the full year order inflow should be around Rs. 1,500 Crores to 1,600 odd Crores and every quarter I think this kind of run rate will come from, I mean, the major order inflow, what you are foreseeing, is likely to come from the export business. Is it fair to understand because it is almost since last two quarters we are under negotiation and some part of that is already into the advanced stage?

**K Srinivasan:** In a right way, we'll have to accept that look, the business doesn't end with fourth quarter. There is again a Q1 of next year and it goes on. So, really we need to book this year enough orders to see that we have a good Q1, Q2 and so on. So, really a combination of both quick finalization of international business with longer cycles of execution, more finalization of domestic orders are both essential and that's what we are working on as we speak to ensure we deliver this year's number, but also stay with our aspirational targets. We need to have a strong Q1, Q2 so that we continue on this growth journey. So, we are working on it and I'm sure that we'll be able to talk more about it in the next quarter.

**Dhavan Shah**: Thank you.

**Moderator**: Thank you, Sir. We'll take the next question from the line of Mr. Mihir Manohar from Carnelian Asset Management. Please go ahead, sir.

**Mihir Manohar**: Thanks for giving the opportunity again. Sir, just two follow-ups. I mean, first on, you mentioned some of the packages which are there, which you are waiting for clearances. So, if you can just throw some light, I mean, what kind of amount is sitting over there, and why is that taking time for getting shipped,. Second question, was just on the large export order, I mean, if you assume that you will get some large orders either in Q3 or Q4 , broadly what time will it take for you to execute them because this will become very important for us to have the Rs. 2,000 Crores. So, just wanted to get an understanding of the execution cycle, I mean, if we get in Q4, will it be possible for us to execute that in FY 25 that was a thing. And third question was on the Reliance KG D6 basin, I mean, a substantial amount of natural gas production is going to happen from that basin. So, how do the overall mathematics of natural gas change versus the energy imports which are happening? How do you see the situation structurally for India?

**K Srinivasan:** Let's start with the first question. I did mention we have an order of between the CNG packages and booster of about a 100 Compressors. We generally don't make all the 100 Compressors and keep it ready. We would probably have at any given time in different form, fully packaged, partly ready, compressor built and packaging yet to be done in various forms, about one-third of it generally in the system. The rest of it would all be only basic things done. The Compressors would be ready, but all the other things will be held back with vendors till the things are cleared. Otherwise, the shop would be full of material.

You would see from our cash generation as well as our inventory management that we are fairly robust on this, and so we would not overdo it ahead of time. Unless there is clearance, we would not take everything into a shop. That's the first question in terms of inventories and other things.

As far as order booking and execution cycle, if you have to get an order for execution definitely within the next year, four quarters, then we should finalize it before Q3. If you finalize in Q4, the chance of large export orders getting done within the next 12 months is tough. Some of these smaller orders can get done, but the bigger orders would not be done. So, that is why for us order booking in Q3 is very important for exports.

In domestic orders, we can book right up to end of Q4, even early Q1, we will still be able to complete it before the end of next year. So generally, the cycles, like I said, international orders at least 12 months, domestic orders of large packages between 8 months to 10 months. So, that's the way we should plan our things and that's how we plan as well.

**Mihir Manohar**: And lastly on the Reliance KG D6 basin?

**K Srinivasan:** So, as far as the gas availability, gas planning the overall announced numbers are what we should look at. They said that the gasification of the energy basket will move from the current level of about 2% to 3% to about 12% over the period of next couple of years, I mean, three years, four years, five years or even longer. This would include a mix of natural gas. It would have LNGs that are imported and gasified. It will also include biogas. So, it's a combination of three things. Our role is significant in the natural gas process. It is also there in the biogas process and limited in the LNG at the distribution level, but at the point of where it is made into LNG we have refrigeration packages and compressor packages. This is largely going into Middle East and other areas because India doesn't actually make the LNG.

**Mihir Manohar**: Thank you very much.

**Moderator**: Thank you, sir. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments.

**K Srinivasan:** Thank you all for joining this call. And let me start by saying, we have slipped in Q1, but we will not fall. Businesses of our nature, particularly in capital goods are businesses that need a robust heart and a clear head. We believe as a team we have both. And we will see that we comeback stronger as we go forward in the next quarter. Thank you all once again for joining this call.

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

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