“Kirloskar Pneumatic Company Limited

Q4 FY 23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Kirloskar Pneumatic Company Limited Q4 FY 23 Post Result Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Shah from Antique Stock Broking. Thank you and over to you, Sir!

Amit Shah: Thank you, Michelle. Good afternoon, everyone. Welcome to the Q4 FY 23 Earnings Conference Call of Kirloskar Pneumatic Company Limited. We are pleased to have with us from the management, Mr. K Srinivasan, the Managing Director and Mr. Suhas Kolhatkar, CFO of the Company.

I would like to hand over the call to the management for their opening remarks, post which we can open the floor for Q & A. Over to you, Sir!

K. Srinivasan: Good evening to all of you. At the outset, I request my colleague, Mr. Jitendra Shah, to read out the disclaimer, 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 the measures which taken by the Company in tackling them as indicated during the discussion. Thank you.

K. Srinivasan: Good evening to all of you once again. The FY 23 has been a mixed one. Most of us are talking of this as a Q4 call, but I would rather cover the whole year, so that it gives the right perspective on the whole thing. We continued on our growth journey, with the overall sales growth to Rs. 1239 Crores, 21% higher than the previous year, led by a strong growth in exports. This is, in spite of the fact that we had very, very few orders for the oxygen compressor. This business was a big ticket last year and that had almost disappeared this time. We also had a significant slowdown in the CNG compressor orders and installations, so that was also another major thing that happened during the year. However, order finalization also started slowing down a bit in the second half and this we had mentioned to you earlier as well. So, overall, FY 23 was a bit of a mixed year. But as we begin FY 24, we have a more positive outlook and we will share this with you as we go forward.

Now to sum up, the sales for the FY 23 were Rs. 1,239 Crores, as compared to Rs. 1,021 Crores of the previous year, a growth of 21%. Profit before tax grew from Rs. 114 Crores to Rs. 143 Crores, a growth of 25%. All the businesses - Air Compressors, Refrigeration and Gas

Compressors, did well overall. Export sales at Rs. 177 Crores were nearly 7x more than what we had done in the previous year. While the supply chain disruptions were largely mitigated with better managed inventory, the delivery times from Europe and the US remains still very much about normal. This has impacted our execution, particularly, in Q4. However, there was a whole host of projects under discussion both in the MENA region and in India and some of them hopefully should get finalized during Q1. This will ensure that we will continue to grow in double-digit. The heightened inflation in Europe and the US has only enhanced our competitive position as a strong supplier of engineered packages going forward.

Overall, order bank at the end of the year was about Rs. 100 Crores lower than the corresponding period of the last year. However, since the end of the year, in April, we have booked about over Rs. 200 Crores of orders, which actually boards well for our execution in FY 24. As we speak, if you look at the 13 months period, we are over Rs. 100 Crores above in order booking compared to the last year. The capex spend for the year, which includes the work-in-progress, is over Rs. 143 Crores. This includes the forging plant and the fabrication facilities that are being put up at Nashik. The solar plant at Saswad has been established and now it meets nearly 60% of the power requirement of the Saswad factory. More importantly, this has allowed us to switch weekly off to Sunday from Thursday nearly after 30 years, and this has greatly enhanced employee satisfaction.

The working capital as on April 1, 2023 was Rs. 283 Crores. This is primarily due to the need to hold larger inventories as well as continued delay in payments we are getting from the oil companies. We however, remain committed to bring it down to about 18% of our sales going forward. As we speak, it is about 22%, so this will release overall further cash. The overall cash generation from operation was close to Rs. 40 Crores.

Now let's take a look at the results from product lines.

Air Compressor business: The Air Compressor business continued to grow strongly in delivering superior solutions to various niche applications. The standardization and scaling up of the Tezcatlipoca range of centrifugal compressors was a milestone. This is an outstanding product that we have. It is by far the most efficient oil-free dry-air compressor in the market. We expect this to become an industry standard going forward. We had record sales of reciprocating compressor packages for various critical applications in metal, in air separation, etc. and this continues to grow. A major step in building reliability, scalability and standardization was the implementation of the Product Lifecycle Management software from Dassault. Standard screw compressor sales were to plan, albeit much lower compared to the previous year with practically no sale of new compressors for the oxygen plants.

Refrigeration and Compression Systems: The sale of Bare Shaft Ammonia Compressors to the cold chain, ice plants were to plan. This segment remains our forte, but the market itself is not growing significantly. However, the newer installations which are largely with screws and semi-hermatic compressors and racks are being targeted by a new Khione range of compressors. We expect to scale up during FY 24. We shipped a large refrigeration package for gas separation to Oman and this is to be commissioned during the first quarter. We are also working on several project proposals both in India and MENA region and these boards well for FY 24.

Process Gas Compression Systems: We completed the installation of three large packages at site in the Middle East region during the year. Due to delivery challenges, the margins were under pressure. However, with this, our credibility as a reliable and efficient supplier of gas packages for the MENA region is well established. We hope to benefit from this in finalizing various offers under discussions and negotiations. We have appointed a senior executive to address the South East Asia market for these packages and this is being scaled up.

The dispatches of CNG packages for the year were lower than the previous year in spite of significant order bank. Most gas companies were not willing to take the new installations as gas price and availability remained a challenge. The situation has now eased in April and we have got the first set of 80 Cālanā Booster Compressors in April.

The oil and gas business is moving to a new normal with prices moderating after an initial phase of uncertainty. With EU accepting natural gas as a part of the ESG initiatives and as a precursor to a future shift possibly to hydrogen, the demand for natural gas and gas projects remains strong. This boards well for us in doing business in this space. The O&M service business continues to grow and with some older installations of other suppliers also being offered to us, we expect to grow further in this space, although payments also remain a challenge.

Outlook for FY 24: I think there was a bit of concern when the Q4 numbers alone were looked at. Let me assure you, the outlook for FY 24 remains positive. The global economy is going through a phase of high inflation and modest to negative growth. However, the slowdown is also in a way delaying the technological transmission in energy. Consequently, the demand for our compression packages continues to remain strong both in gas and refrigeration space. Also, the installation of CNG stations has now accelerated and hopefully, we will meet all the announced plans. This will mean that we can have significant growth in both CNG and booster compressor sales in FY 24. We continue to have strong inquiries for various packages both in India and from the Middle East. We will also benefit from the new range of products which are being scaled up, the Khione, Cālanā and the Tezcatlipoca range of Compressors, which have been brought into the market during the last year.

We are confident that we will be able to maintain our growth momentum and we remain committed to meet our aspirational target of being a Rs. 2,000 Crores plus Company in the next two years. The Board of Directors have recommended a final dividend of Rs.3/- per equity share (i.e. 150%) taking the total dividend to Rs. 5.5/- per equity share (i.e. 275%). The equity shares of the Company are now listed on the National Stock Exchange of India Limited from April 26, 2023.

Now I request Mr. Suhas Kolhatkar, CFO, to take us through the financial details.

Suhas Kolhatkar: Good evening, ladies and gentlemen. I hope you were able to go through the results which we posted on the BSE and NSE website(s) a little while ago after the conclusion of the Board Meeting. We have also uploaded a presentation on annual results on the Company's website. However, for the benefit of those who possibly did not get a chance to go through this, I would summarize annual financial performance for FY 23.

Before I touch upon the various elements of the financial performance, let me first broadly talk about some of the highlights of the year. During the year, the Company achieved a turnover of Rs. 1,239 Crores, which our MD mentioned, 21% growth over the previous year. You would recall that we have been given a guidance of annual growth of 20% plus and we were able to achieve that. This guidance was particularly given knowing that the Q4 was going to be a little low, though we had posted close to about 40% growth in the first three quarters.

Export sales, which had contributed to the first three quarters, also contributed to some extent in the Q4 and we did about Rs. 25 Crores of exports, taking the total exports to about Rs. 177 Crores, as against about Rs. 25 Crores - Rs. 30 Crores in the earlier years. The opening order book was Rs. 100 Crores down compared to Rs. 1,250 Crores, but as we said, it is Rs. 100 Crores up from the Rs. 1,250 Crores which existed last year.

I will now turn to the business results for the year and quarter. Sales for the quarter were higher than the preceding quarter and it stood at Rs. 360 Crores, however, 10% lower as compared to corresponding quarter of the previous year. As off-take of the CNG compressors was muted due to the high prices prevalent in the market, we had about about Rs. 70 Crores in the previous year from CNG, coming down to about Rs. 30 Crores in the current year.

The full year sale, however showed a growth of over 21% with Rs.1,239 Crores as compared to Rs. 1,021 Crores. Other income more or less remained same at Rs. 11 Crores and Rs. 12 Crores. So, our total income for the year was Rs. 1,250 Crores as against Rs. 1,033 Crores in the last year. With stable commodity prices and better realizations, material cost in Q4 was about 55%, as compared to 56% in the corresponding quarter of the last year and also of the preceding quarter. Annual material cost, however was higher at 56% as compared to 55%, due to low margins on export in earlier quarters, which we have talked about.

So far as employee-related expenses are concerned, Q4 ERE was marginally higher than that of Q3. However, it is more or less in the trend of about Rs. 35 Crores per quarter. The annual ERE was, however, higher at Rs. 144 Crores as compared to Rs. 129 Crores, as we rewarded our workforce who stood by during the difficult times with the Company during the COVID pandemic and ensured that the growth did not get hampered. With sales growing in the current year, the percentage of ERE to sales declined by almost 1% and we have about 11.6% of sales as ERE compared to 12.7% in the previous year.

The Company has no loans whether term loan or working capital loan on its books and is a debt-free Company. The interest costs reflected in the profit and loss account is on account of interests other than on the borrowings. At this juncture, I would like to state that the Company has a net cash position of about Rs. 190 Crores as on March 31, 2023, after paying final dividend of the last year and interim dividend declared in the current year apart from the capex. Depreciation is in line with the previous year and additions to assets. The Company invested close to Rs. 42 Crores in capex.

Other expenses are a mix of variable costs and are at the same level of about 18.7% of sales as compared to the previous year. There is no significant variation in the level of expenditure and cost controls exercised in the previous year continue in the current year also. Though in terms of absolute value, we might find some variation, but as I said, it is due to mix of fixed and variable costs. As the project sales go up, we have certain costs coming out of the projects getting classified in other expenses instead of material costs, such as the sub-contracting charges, etc.

EBITDA in the current year is marginally low to 14.1% of the total income as compared to 14.7% in the previous year, which was mainly on account of dropping margins which happened in the Q1 of the exports sales as indicated in the earlier calls. Annual PBT improved to 11.4% of the total income as compared to 11% of the previous year. The Q4 PBT, was much lower at 11.6% as compared to 18% of the previous year due to lower sales with high ERE and other expenses. PBT of Rs. 143 Crores shows a 25% growth as compared to previous year's PBT of Rs. 114 Crores. Consequently, PAT also rose to about Rs. 108 Crores, which is 8.7% higher than 8.2% of the previous year when it recorded a PAT of about Rs. 85 Crores.

The Company issued 1,89,400 Equity Shares during the year under its ESOP scheme. Consequently, the paid-up share capital of the Company increased to Rs. 12.93 Crores as compared to Rs. 12.89 Crores. Basic EPS has also improved to Rs. 16.82/- per share as against Rs. 13.19/- per share in the previous year. As our MD has already spoken about the final dividend of 150%, taking the total dividend for the year to 275% as compared to 200% for the previous year.

More or less 93% to 95% of the revenue still comes from the compression segment and it remains the only reportable segment. Previous year's figures were regrouped wherever necessary to the corresponding figures of the current year.

The segment earned a profit of about 18% in the current year as compared to about 18.5% in the previous year. More or less it remains at the same level. Order booking during the year was Rs. 1,140 Crores. As a result, the Company has an order book of Rs. 1,150 Crores as on March 31, 2023. Capital employed in the compression segment also increased by about Rs. 30 Crores, particularly in the form of receivables and lower advances from customers as the order booking was a little lower. Net working capital as a percentage sales rose to about 26% as compared to 22% of the previous year on account of higher receivables and lower advances. We have receivables, in terms of days they have come down to 96 days, as compared to 106 days in the previous year and the suppliers outstanding has also come down to about 71 days as compared to 96 days of the previous year. Most of the investor community is interested in knowing the breakup of the project and product sales, which continued to be more or less in the same range. About 60% of the business comes from projects and balance from the product.

With this, I would like to start the question and answer session.

Moderator: Thank you very much. The first question is from the line of Kashyap Javeri from Emkay Investment Managers. Please, go ahead.

Kashyap Javeri: I have about three-four questions. The first one is on our Q4 numbers. While I understand that FY 24 outlook still remains robust, in the Q4, which supposedly is regarded as the best quarter for us, what drove this by end to 10% top line decline? Was it related to export, because I understand that first nine months is about Rs. 50 Crores average? And the last quarter, probably, we did just about Rs. 25 Crores - odd or so. And besides that, within domestic, would it be only attributable to CNG packages?

K. Srinivasan: There are a couple of things. Generally, the last quarter used to be when the large packages were to get dispatched. If you see every year, the last quarter always had some big packages for dispatch. This time most of the large packages went in the first three quarters. The export up to three quarters was almost about Rs. 150 Crores. The last quarter export was only about Rs. 20 Crores. So, most of the big packages were dispatched in the first three quarters. There was practically no big package that went out in the last quarter.

The CNG dispatches were low, right throughout the year. It was significantly lower than even the previous year, in terms of CNG dispatches. So, that was not the reason. The only reason is, historically, Q4 had some big packages for dispatch. This time, we had none. So, that would be the only reason why top line was lower by about Rs. 40 Crores - Rs. 50 Crores than traditionally what we used to do.

Kashyap Javeri: And second question is, usually our yearly sales, if I look at last probably 5 years - 6 years trend, as the execution cycle is anywhere between 6 months to 9 months, the yearly top line is usually about 1.3x - 1.4 x of the opening order book. This year, we started the order book at roughly about Rs. 1,250 Crores and ended with the top line, which is lower than that number. And we are starting this year with about Rs. 1,100 Crores of order book. What gives us that confidence? I mean, I understand there is Rs. 180 Crores of additional orders which we received in last, about, 25 days. But wouldn't probably last year also in April we would have got some orders that would have jacked up April end order book in FY 22 also? So, what gives us that confidence? Can we go back to that 1.3x of opening order book kind of a top-line number?

K. Srinivasan: We had explained it before as well that our execution cycles have become better nowadays and it also in a way depends a little bit on the size of the products, the packages that we get. If we get smaller packages, larger numbers, we tend to do it within 6 months. If there are very large packages, we tend to take 8 months and beyond. So, our confidence is that with a larger number of CNG packages and other things going out this year, we should still try and get to at least 1.3x to 1.4 x. So, we remain the same committed, we will grow 20% plus, how much plus, we will take it quarter-over-quarter.

Kashyap Javeri: Bookkeeping question. If I look at your balance sheet, other financial assets number which has gone up from roughly about Rs.91 Lakhs to about Rs.53 Crores, so what is that others category? And second, same on the liability side, other current liabilities have gone down from Rs.110 Crores to Rs.77 Crores. I understand in last year, as per the audited balance sheet, there were no debts with less than 12 months maturity. So, what is that Rs.110 Crores to Rs.77 Crores? And why I'm asking this question is that when I look at cash flow statement, because of these two line items, it seems like your Rs.110 Crores operating cash flow has come down to roughly about Rs.35 Crores - Rs. 37 Crores. So, just if you can throw some light on these two line items of the balance sheet?

Suhas Kolhatkar: Ind AS requires certain classification of the assets into the financial assets based on the initial tenure. So, we had kept about Rs. 51 Crores of which was considered as surplus for the year, in our fixed deposit with the banks and did not invest it necessarily in the mutual funds. And that's why Rs.126 Crores mutual funds have come down to Rs.103 Crores. And the other financial assets have gone up from Rs.91 Lakhs to about Rs.53 Crores. So, out of that Rs.51 Crores are fixed deposits with banks with a better rate of return. And these are having the original maturity beyond one year, though the residual maturity is less than one year and that's why those have been classified under current assets, Ind AS requires us to classify them not in cash and bank balance, but as other financial assets. So, that's for the first.

Number two; in my brief on the order booking, I said that the order booking was little muted and our working capital as a percentage of sales has also gone up, because the advances received from the customers have come down as a result of lower order bookings. And that is the reason why Rs.110 Crores has come down to Rs.77 Crores.

Kashyap Javeri: Okay. So, when you mentioned about Rs.190 Crores cash balance - that is, Rs.103 Crores plus Rs.35 Crores of cash plus whatever has been shifted from investments to other financials?

Suhas Kolhatkar: No. From bank balance to other financial assets, because this money was kept in fixed deposits. So, either it could have found its place in cash and bank balance, cash and cash equivalents, or bank balances. Other than three above, cash and cash equivalents, had the original maturity of the investment being less than one year.

Kashyap Javeri: Right. And final question from my side, on the margin side. Now that generally commodity prices have come down, what should be the margin outlook for FY 24?

Suhas Kolhatkar: See, we have ensured that minimum 18% margins on our compressor business will continue, if not better. And that is what we have been delivering year-on-year. There are certain other non-reportable segments which were bringing down the margins. And we have taken adequate steps to ensure that these effects of other unallocable expenditure comes down, because today, if you see, our annualized business has more or less remained at Rs.63 Crores - Rs.65 Crores. Once this comes down, which we are quite hopeful in getting this down, our overall margins for the Company will improve.

Kashyap Javeri: Thank you.

Moderator: Thank you. We have the next question from the line of Aditya Nahar from Alpna Enterprises. Please, go ahead.

Aditya Nahar: First of all, congratulations on your NSE listing. I think it was something which was long pending and long overdue and to the entire team of Mr. Suhas and Mr. Jitendra as well. So, congratulations on that. And secondly, Mr. Srinivasan, to you personally, we saw the announcement about your re-appointment for the next three years. Just wanted to wish you the best of luck, Sir. I have no questions, Sir. Thank you so much.

K. Srinivasan: Thank you, Aditya. Thank you very much.

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

Nikhil: Good evening, and congrats on a good set of numbers for the full year and good order booking, which we have discussed. I have two questions. One is on the CNG part of the business. If we look at the total revenue which we have booked, how much profit would be coming from the CNG including the booster and the mother station? And what was that number or percentage - in terms of percentage for last year and how is it down this year?

K. Srinivasan: Last year, we had no booking for booster. We only sold four booster compressors that is in FY 23. This year, as we speak, we have an order of 80 plus 16, i.e. 96. Like you know, the booster compressors are roughly about; the smaller ones are roughly about Rs.30 Lakhs - Rs.35 Lakhs, and the bigger ones are about Rs.40 Lakhs - Rs.45 Lakhs. So, that's the kind of start-up we have. On a good year, the CNG compressor business is roughly about 200 or more. Last year was significantly lower than that.

Suhas Kolhatkar: Roughly about 30% plus.

K. Srinivasan: 200 numbers or 200 compressor?

Suhas Kolhatkar: Numbers - Yes.

K. Srinivasan: CNG package is about 200 or more. Last year it was significantly lower than that. In fact, that even if there is a catch-up, we should get back to at least 250 plus for the CNG packages and at least about an equal number of boosters. So, overall it should give us good numbers. We will see how it plays out, like we are very hopeful that this catch-up will happen. First indications are it is happening. Let's see.

Nikhil: Thanks for that explanation. Second question was, if we look at like last 2 – 3 years the CNG business opportunity, when we had started talking about and the opportunity which it can evolve over 8 – 10 years , from where we started to today, is there a change in the assumptions or is there any change in the way the business is happening in terms of tenders or in terms of order booking from the CNG companies? Is there a significant delay as compared to what we had thought? Just wanted to know, what we had thought 2 -3 years back and what we are seeing on the ground, how much of a deviation are you seeing?

K. Srinivasan: This is a fairly complex question in the sense, the tendering or getting of the gas connections by these gas companies has not changed. But they all got a two-year high because of the COVID. So, they are all being going slow on their execution. Plus, the whole of last year, the availability of gas and the price of gas was such that the gas companies actually were losing money, so they were not keen on installing or putting up more new stations. Even where the orders were placed for our compressors, they were not keen to give clearance for us to even deliver and install.

So, these things are likely to change. As we speak, the Kirit Parikh Committee recommendations have been accepted. You would have seen that already being done. So, there should be an acceleration by these gas companies to complete what they have committed when they all won these tenders. Consequently, there should be an equal clearance coming up for us to execute quickly.

Nikhil: When the companies won the GA, they also have a performance guarantee which they have to file to the PNGRB that in terms of the network which will be laid out or the connections. Now, in the last three years because of COVID, because of last year as we are saying, they were not ready on capex, would you say a lot of it has to bunch up in next 3 years -4 years or how do you see the scenario playing out now?

Suhas Kolhatkar: During the COVID Pandemic, the companies had approached PNGRB for the concession in the minimum work program. Now that was considered by PNGRB to some extent and that period has ended by March 31, 2023. So, we should see all those backlogs coming up in the current year and in next 1 year or 2 years to catch up with the original plan of installation of close to 1,000 numbers of gas stations coming out of 9th and 10th round. And in addition to that, you are aware there are about 62 GAs were added in the 11th round which should also add to further demand. So, we are hoping for a better CNG business in the coming years.

Nikhil: Thank You.

Moderator: Thank you. The next question is from the line of Raaj from Arjav Partners. Please, go ahead.

Raaj: Wanted to know how much of capex have we done in FY 23?

K. Srinivasan: We have committed Rs.42 Crores including capital work-in-progress.

Raaj: How much do you expect to do in FY 24?

Suhas Kolhatkar: Similar.

K. Srinivasan: About the same or a little plus.

Raaj: For FY 24, am I right, you have indicated a growth of 20% plus?

K. Srinivasan: Our target of Rs.2,000 Crores in two years remain and to get there, we will have to do 20% plus. The order inflow and what is happening gives us the confidence that we should get 20% plus.

Raaj: Is there an O&M part into it?

K. Srinivasan: Yes. We have been giving this clarification that our spares and O&M combined is roughly about 15% of our total business.

Raaj: Can we expect that EBITDA is higher on O&M side?

Suhas Kolhatkar: EBITDA, we don't split between O&M and the other main compressor package, because when the orders are won, it is a packaged order. It is gas compression plus O&M. So, the margins are generally the same across the order, about 18% that come from the overall compression segment.

Raaj: Thank You.

Moderator: Thank you. The next question is from the line of Levin Shah from Motilal Oswal AMC. Please, go ahead.

Levin Shah: Thanks for the opportunity. Sir, my first question is on the exports. So, out of the total order backlog, what would be the order backlog in exports?

K. Srinivasan: The order backlog in exports is very little. We have a couple of orders going out in the Middle East and South East Asia, less than Rs.50 Crores.

Levin Shah: At the end of Q3, we had around Rs.100 Crores of export order backlog. So, that has come down. Is there any specific reason that we haven't had inflows from exports at least in this quarter?

K. Srinivasan: Yes. We have been saying that the finalizing of export orders is not happening. We are still in the midst of discussion on some very large orders, but they're just not getting finalized. They're all getting delayed.

Levin Shah: Sure. And by when do we see these orders getting finalized? So this, I believe, wouldn't have been tendered out yet, right?

K. Srinivasan: No, we have not lost it, they've not been finalized. So, we will have to give it some time. We have been expecting every month that we will get it during the month and so we are still waiting. We hope that this will happen.

Levin Shah: Right. And my second question is on the margins. So, directionally what we have said is that at the EBITDA level, we will move to kind of 17% - 18% margins in the medium term. But if you look at last three years, despite good growth in FY 22 and FY 23, our gross margins as well as EBITDA margins have broadly remained flat. So, what are the key drivers that will actually push these margins higher?

K. Srinivasan: We have already explained this. Mr. Suhas had mentioned that the compression segment margins are still tracking at where it is, about 18% plus. The rest of it is what is dragging it down. There are some structural corrections. There are some operational corrections. We are working on it and hopefully we should complete this during the next year. So, that would take us directionally more towards the 18%.

Levin Shah: And this question to Suhas Sir is what are these losses around like Rs.60 Crores - Rs.65 Crores that we are incurring under unallocated end?

Suhas Kolhatkar: Those are not losses. Those are total expenses - unallocated, this is the unrecognized segment. It basically is corporate overheads, depreciation, etc.

Levin Shah: All right. But this amount seems to be substantially higher

Suhas Kolhatkar: It's at overall the same level because depreciation coming from, you remember our erstwhile transmission business, which we used to report, which is a capital-intensive industry, it always had a larger depreciation. All that cost will come in over there. Because, we have all the non-reporting revenue being shown upwards, about Rs.82 Crores.

Levin Shah: But what we are saying is, essentially, this will come down?

Suhas Kolhatkar: It has to come down. That is what we are targeting so, that our overall margins, overall EBITDA margins, PBT margins for the Company will improve. And you should see something positive happening in this current year.

Levin Shah: Thank you, Sir and all the best.

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

Jonas Bhutta: The revenue target that we have for Rs.2,000 Crores, even if we were to stretch it to 3 years, that would sort of imply more like a 18% to 20% top line CAGR. In your opinion, what needs to happen? What are the key levers other than the domestic CNG piece that needs to kick-in for us to achieve that, or even sort of front-load it to the 2 years that Mr. Srinivasan, you seem to commenting that we would try and get to that in 2 years? So, what really needs to kick-in for that other than the CNG piece?

K. Srinivasan: I think couple of good things are happening. I'll come to the CNG part later. The Air Compressor business itself is seeing tremendous traction. To give you some numbers, to give you the direction we're going, the previous year, we did roughly about 3,000 compressors and that gave us a turnover of roughly about Rs.1,000 Crores plus, which means our per package cost was roughly about Rs.30 Lakhs. This year, we actually did only about 2,500 compressors and delivered turnover of about Rs.1,230 plus, which means we are tracking almost Rs.50 Lakhs per package. This is an average number. The size of packages and the engineering that is going into this has changed over a period of time. That is tracking well, which means our competitiveness in packaging is becoming better, which makes us more competitive not only in Indian market but also for exports.

Now, this allows us to track larger packages, larger projects, etc., which were otherwise all being imported into India. We expect to grow further both in the Air Compressor business as well as in the Refrigeration Compressor business. Gas compressor business, we have already been talking about CNG getting us more revenue and the project orders of Middle East giving us more revenue as well. So, overall, I think there are multiple legs in this strategy. Several of these things are working well with our new products, etc., also adding to our competitiveness. 20% plus will come from a combination of things. It is not dependent only on the CNG growth.

Jonas Bhutta: Can you give us a broad breakup of the compressor sales for the year?

K Srinivasan: As detailed earlier, , the Air is roughly about 25%, the Gas business is roughly about 45% and the Refrigeration business is roughly about 30% - 35%. So, that split will remain. And each of them has got its own growth path that we are working on and that continues to grow in that pace.

Jonas Bhutta: The slowness in CNG in FY 23 was taken care by which segment, as in which product line that helped us keep that?

K. Srinivasan: That itself has the export packages which helped us. So, CNG is a domestic business that has flattened. It was taken up by almost about Rs.140 Crores of gas package export.

Jonas Bhutta: And my last quick question to Suhas Sir was, whether the other expenses in Q4 were slightly elevated despite a lower top-line. So, are the sub-contracting charges sitting there, or that was a function of the nine-month results where exports were higher?

Suhas Kolhatkar: Sub-contracting and the packages, etc. are sitting there, because almost 60% of our business came from packages. And that cost is sitting there.

Jonas Bhutta: So, this was in the fourth quarter?

Suhas Kolhatkar: Fourth quarter, even if you look at annual figures, you will find a similar rise.

Jonas Bhutta: Thank you and all the very best.

Moderator: Thank you. The next question is from the line of Parin Gala from SageOne. Please, go ahead.

Parin Gala: Good evening, and congratulations, Sir, on your extension. Sir, you mentioned that in the export order, our margins are very, very thin, but it establishes us as a reliable player. So, going forward, do you think that these export orders will now fetch us higher margins, nonetheless, or the margins would still remain at these levels?

K. Srinivasan: Export products, by definition, the margins are about the same as the domestic, except in the first large order that we executed, where we had very, very thin margins to make an entry, then we did have some challenges because of the deliveries and other things, and consequently, our costs went up a little bit in the couple of other orders. But as the process and the way we hope for export orders would be targeted, to have very similar margins as domestic and we believe that's sustainable. We will be there as we scale up.

Parin Gala: There was a news article in the paper that biogas station which the government had planned, they are still not changing the target of 5,000 stations by FY 25. So, are you seeing some traction on the biogas side, that we are ready with the product and all that? So, are we seeing some inquiry there?

K. Srinivasan: We did not get any big orders, but we have got a few orders. I should say that the inquiries are larger, and from getting no orders, we are getting sporadic orders now. So, we have a couple of orders coming , in April, a couple of orders, as we speak, they were finalizing. So, I think there are more orders coming in than what was happening last year. We are also developing more efficient compressor, which is really in sort of a package of two, we will now come up with one compressor which will take care of everything. The whole system now all of us are working together. That means the gas generation companies, the equipment builder, all combined, that these packages need to be scaled down to a level where smaller BioSource companies can also have biogas plants. So, unless this happens, these 5,000 biogas plants will not happen. So, there is a, let's say, a technical challenge to get the entire plant scale down and the investments down to a level where smaller BioSource matters can all be used. So, that's what is happening. I think it is the work in progress. But the intention of the government is very clear. 5,000 packages must be done within the next 3 years – 5 years and I think they will try and get there.

Parin Gala: Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Vishal B. from Max Life. Please, go ahead.

Vishal B.: Hello. Mr. Srinivasan, could you elaborate on the Air Compressor business as to how the new product is planned out and how is the market doing and how is our market share moving there? Thank you.

K. Srinivasan: The previous year, we predominantly had screw compressor as a volume compressor. Last year, it was more of high-value reciprocating compressor packages as well as a scale-up of a centrifugal compressor. We've been talking about it for some time now, and today we can say with confidence that we deliver the finest Tezcatlipoca range of centrifugal compressors.

People are extremely happy with these compressors. But it will scale up further as we go forward. What we think will happen going forward is, we would become the preferred choice for Air Compressors which are a part of a process and not just a stand-alone utility where normal screw compressors will work. We are there in the screws as well. But we would become a very dominant player in the more engineered Air Compressor packages. That's where I think it's moving and I think that's an interesting development as well, because not only will our margins be better, but it will be more competitive in these areas.

Vishal B.: How the market has been doing? Have we seen any slowdown in inquiries on the Air Compressor side?

K. Srinivasan: There has been a significant slowdown in the standard compressors after the big boom that everybody was coming out of the oxygen compressor business. But that has mostly been in the screws. So, we have been less impacted as compared to others who will lose it predominantly with screw compressors.

Vishal B.: Concerning buoyant demand that we saw from oxygen plants, except that which are the segments that are doing badly and which are the segments that are doing relatively better?

K. Srinivasan: Pharmaceutical, chemical, construction, metal, cement, ferrous and non-ferrous, all of them are doing well.

Vishal B.: And have we gained some market share because of these new compressors in the areas?

K. Srinivasan: In the areas I mentioned, we have gained market share for sure.

Vishal B.: What could have been the growth for air compressors products for FY 23?

K. Srinivasan: Like I said, we lost the entire oxygen compressors. So, number-wise, it was actually a decline. Volume-wise, it was a growth. So, I gave you some kind of a measure of the ticket size being overall growing from 30% to 50%.

Vishal B.: And could you give the growth that you registered for FY 23 for the refrigeration segment?

K. Srinivasan: That's a tough one. I think, you should take it that 20% value growth is what we had. In the refrigeration, again, we had relatively flat volumes and a larger growth coming from value because some of the bigger projects were executed. Predominantly, similar situation also for the gas business, flat volumes and larger packages.

Vishal B.: Thank you.

Moderator: Thank you. The next question is from the line of Prolin from Goldfish Capital. Please, go ahead.

Prolin: Mr. Srinivasan, first of all, congratulations on getting the extension. It's good to see stability at the top management of the Company. Couple of questions from my side. One would be, in terms of this Rs.170 Crores of exports that we have done and the order book is only Rs.50 Crores, so I am trying to understand that we are playing in the export market in a very niche kind of a segment.

Can you help us understand as to which is the segment and how do we expand our play in overall export market, because in the last call, you had mentioned that there is a stability in gas prices, so the urgency to probably go ahead with some of the projects is no longer there? How do we ensure that given we are a very small size in the overall scheme of things, in the overall export opportunity size, how do we expand our play here?

K. Srinivasan: That's a pretty big question. First of all, thank you for your good wishes. Let me say what we will do. What we realized is these big packages are taking longer time to happen and it also brings in an element of uncertainty in terms of both the timing as well as the execution. So, what we are now specifically focusing are the smaller packages. It could even be sub-packages. You could get them quickly, finish them within 4 months to 6 months, and that sort of fits well with our scheme of things. We are focusing on this. We have, as we speak, came very near, completing a couple of them. This could be in South East Asia. We have taken a specialist, again, from South East Asia for this purpose. And this will go faster this year.

We are working on those big packages as well, the large gas-gathering stations, gas-filling stations, off-gas collection, etc. These are bigger packages. We're working on both. But the smaller ones, are the ones we will run after and seek to get in larger numbers to accelerate our growth, because in this niche, we are very competitive, we are very quick and we can do it faster than others. So, that's what we are looking at.

50 is too small a number, we need to get at least, I was hoping that before we'd have this call, we'd have one large order finalized, but it's still not finalized. A couple of big orders will change the number. So, let's hope that when I talk to you again, that I can tell you if we have these orders in.

Prolin: That's great, Sir. Just extension to this would be, we are not thinking of getting into pure distribution of our products in the export market, right? And is there a reason why we are not thinking or will it come in the future date sometime?

K. Srinivasan: As we have already mentioned, we are more of an engineered package supplier. The compressor is a part of our total package. So, this is very specific to each application, each installation. So, there's a lot of engineering that happens around it. We cannot have a standard distribution. We can't have something sitting outside. This is possible for standardized air compressors or to some extent, in the standardized Bare Shaft Refrigeration Compressors. We do a small quantity of this. That's what gives us about Rs.20 Lakhs - Rs. 30 Lakhs of business, but that's a very small part.

The larger part is the engineered packages. This is where we have a unique and sustainable advantage. These packages, the very large ones, can be built by large EPC contractors. There are a few, out of India, that you know of and most of it otherwise being built out of companies in Europe or may be South Korea or from the US. This is a space where we are extremely competitive, we are very, very agile in this space, simply because we can take up things which others cannot. We have a terrific domain skill in terms of engineering capabilities and integrating capabilities, and we are good at this. We see that this is a space that we will take and grow.

Prolin: Thank you for that. Sir, the second question would be on this other segment, which is still dragging our overall company-level margin. Now in the past, we have been talking about that there were some motors which we used to sell it to transmission segment. But we intend to use that internally for our air compressor segment, if I'm not wrong. And also we had that

RoadRailer part of the business as well. So, why is it taking slightly longer than probably expected in getting this, I mean, the loss or lower margin on this at the Company-level margin?

K. Srinivasan: The transmission business is being repositioned to meet our internal requirement.. In fact, there is actually no cash loss, there is depreciation still on it. A lot of it is being taken over with our internal work, etc. The RoadRailer business, again, we are looking at multiple choices. Every time we go to a State saying that, can we get a partner, we are in discussions about it. At the same time, there's Gati Shakti and other things, they're giving us a ray of hope that they would try and revive this. And we didn't want to spend all these years and then give it away at a time when things are getting to pick-up. So, it's been going up and down. But like what Mr. Suhas had also mentioned, we will take a very definitive call. I think we have done our best in this. We have given it all kinds of possibilities and chance and you will see some very definitive calls during this year.

Prolin: That is very good to hear, Srinivasan Sir, I mean, it would be may be better in somebody else's hand and may be somebody else can create value out of that. And the last question would be on this Rs. 2,000 Crores target in 2 years' time. I just wanted to understand that as we stand and as we look at next 2 years, is it fair to assume that may be CNG orders are going to come much more quicker than what they were last year? Also, I mean, we have made a mark in some of these MENA markets as well wherever packages are doing well. And some of the new products which we have launched in air compressor are now very well established. So, in that sense, I mean, can we hold you to that 2 year - Rs.2,000 Crores number rather than 3 year - Rs.2,000 Crores target number given all these tailwinds that are there in our business?

K. Srinivasan: You can hold me to and I'm going to be around to see that it happens.

Prolin: Thanks a lot, Sir and all the best.

Moderator: Thank you. We have the next question from the line of Mihir from Carnelian Capital. Please, go ahead.

Mihir: Thanks for giving the opportunity and congratulations on the extension.

Mihir: I wanted to understand the increase in other expenses, I mean, Suhas Sir explained that there is an increase in sub-contracting cost because of the projects business which was there. So, I wanted to understand the quantification of the same, because when you see on a Y-o-Y basis, it's like a 6 % increase, which looks to be substantial increase.

So, is there any other element which has led to this increase in other expenses, because what becomes really difficult to understand is how are we going to have a 17% - 18% EBIT margins at the Company level given the increase in other expenses which has been there? And plus, the Rs.63 Crores - Rs. 65 Crores of total expenses that are sitting, you mentioned that you are taking steps on the reduction side. But if you can throw some light, what kind of reduction one can expect over may be the next 1 year or the next 2 years?

And the second question was on the exports side of the business. I mean, you mentioned that there are good inquiries, specifically, which are coming from Europe side, because demand for natural gas is something which is coming back. Sir, just wanted to understand as to what is the on-ground inquiries? What are the kind of inquiries that you are seeing and what is the quantum and value of inquiries that you are seeing specifically from Europe natural gas?

K. Srinivasan: The inquiries are not so much from Europe. Actually, these are projects designated to serve European requirements. So, most of it is actually LNGs and others that are being done in the Middle East to serve the newer requirement in Europe because Europe is going more and more towards natural gas through LNG route imported out of the Middle East. So, that's a little clarification.

We have significant inquiries that we are on the verge of say, all technical discussions are complete, commercial negotiations going on. Most of them would be in, I don't want to give exact country, but all of them are in the MENA region, all of them are in Middle East, and we should have some of them, at least, finalized in the next month or so. So, that would actually give us the advantage. All of them are into gas collection station, gas cooling stations, gas separation units, etc. So, they are all by and large into gas cooling and that would go into the LNG terminals, etc. So by-and-large, around natural gas process all in the Middle East.

This is as far as the business is concerned, Mr Suhas, will explain on the margins side.

Suhas Kolhatkar: Mostly if we look at our business, the other costs which is, as I have said, the mix of fixed and variable costs. So, the sub-con charges, which is nothing but the packaging charges, we have got almost 60% of our business which came from the projects. The packages, rather, I would say, I will use the word packages including exports and all that packages costs apart from the material, basic material, the package building costs, so which is the sub-con charges.

Similarly, we also execute the O&M contracts along with the supply of compressors. So, that also involves sort of the sub-con charges because there is some force that we use instead of ours deploying directly from our roles , certainly subcontractor, certain activities. So, overall, on Rs.750 Crores plus, which is about 60% of our total business, we have some to spend something like, I think, about Rs.109 Crores maybe. So, which is about 14% - 15%. And if you look at previous year, we had a similar percentage. It's sheer the volume growth that has actually resulted into increase in sub-con charges. But it doesn't go into the material costs as per the formats. It goes into other expenses, and that is where this variation is seen.

So, as far as fixed costs are concerned, there is hardly any major variation. The normal activities, pre-COVID level activities are back, so travel cost has gone up to some extent to our pre-COVID levels. And there were some plant upgradation costs that were incurred during the year. So, other than that, we have not incurred any unusual costs which sits in other expenses.

K. Srinivasan: Just to add a little bit on the flavor of what we're trying to do. There are a significant amount of work that we try and get outside, and this was meaningful when we were doing these packages in few numbers. As we do more-and-more of these packages and we are getting those and we're also looking at timescale of wanting to do this quickly, we are, like we mentioned in the opening comment, trying to establish our own in-house capability and enhanced capability for both fabrication as well as forging at Nashik. Part of the capex last year that is committed to this. This is being done and this is being scaled up.

So, this is how we keep saying that over a period of time, this will allow us gradually to see that this as the percentage will start falling, because it will allow us to do things in-house. One is, it improves margins, and more importantly, it also ensures that we execute our projects much faster, much quicker. So, that's the way it's working. It's sort of enhancing our value chain advantage.

Mihir: And on this Rs.62 Crores to Rs.65 Crores of expenses which are there. So, what would be the corporate overhead out of this transmission business expenses? And what kind of reduction can we expect over next year and next two years?

Suhas Kolhatkar: I think you can say roughly about one-third of that would be corporate expenses. Our intentions are to get rid of the two-third of the costs.

Mihir: What is the timeline for improvement in the two-thirds of the costs?

Suhas Kolhatkar: It's two years' time, because this year we will work on it, you will see the full year's effect may be in the next year.

Mihir: Thank you.

Moderator: Thank you. Ladies and gentlemen, this would be the last question for today, which is from the line of Sanjaya Satapathy from Ampersand. Please, go ahead. As the current participant has left the queue, we move on to the next participant. And the question is from the line of Dhavan Shah. Please, go ahead.

Dhavan Shah: Thanks for the opportunity, Sir. So, I have a question on Air Compressor math, which you highlighted that in last year, we supplied somewhat around 2,500 Compressors, versus the FY 22 dispatches was roughly 3,000 Compressors. And the revenue from Air Compressor was roughly Rs.300 Crores odd based on the 25 % metric. So, I cannot understand the math. So, in one package, is that like four compressors was there, or how is the calculation, because the per compressor per package cost you mentioned is Rs.50 Lakhs, and the 25 compressors you have supplied?

K. Srinivasan: As I discussed earlier it is the total number of compressors produced across the Company in all the three verticals and the total sales. So, the package cost - air compressors hardly have much of packaging. Most of the big packages would have been from the gas and the refrigeration. So, to give you a flavor of how compressors overall goes along with engineering was why I gave this number. Air compressor packages per se would not be at that kind of an average value. It will be significantly lower.

Dhavan Shah: And in term of the numbers, can you share what would be the overall plant-wise capacity for the compressor across the all three verticals? And at what utilization are we operating right now?

K. Srinivasan: The compressor building capacity of the Company , we can do may be 5,000 plus compressors. That's not an issue at all. If you're just building compressors, we can build much more than 5,000 compressors.

Dhavan Shah: Okay. And in terms of the order book breakup, can you share the breakup between product and project business out of this Rs.1,450 Crores?

K. Srinivasan: It is about 60% from the projects and about 40% from the products.

Suhas Kolhatkar: So, it's more or less same between air, refrigeration and gas.

Dhavan Shah: Okay. And given that we are targeting roughly 20 % Y-o-Y growth in terms of the overall revenue, which means that we may end up roughly Rs.1,500 Crores odd top line. And the export business order book is roughly Rs. 25 Crores or Rs.30 Crores. So, is it fair to assume that the domestic revenue would be roughly Rs.1,300 Crores to Rs.1,400 Crores, or maybe you are expecting that the export pie catch up may be in the second half of the year, the Rs.170 Crores top line which we have recognized last year? So, do you foresee the same number, which we can do this fiscal, or there can be some growth because of the order book sluggishness?

Suhas Kolhatkar: I believe it is going to be a mix of both. There will be some export orders which will come in the next 11 months and will also get executed. But as we said the growth will come from the CNG compressors as well in the current year, the drop actually was compensated by the exports in the current year. So, if you look at overall, despite the drop in CNG compressors, we had 20% to 21% growth despite the drop in oxygen compressor, which is a substantial growth, which is a substantial drop in the current year. We still grew our air compressor business by about 20% plus actually. So, this product line will continue to contribute. All three product lines will continue to contribute to the growth. And exports will be perhaps added, so it will be the icing on the cake.

Dhavan Shah: Okay. And the CNG packages you mentioned, roughly 250 packages we can do this fiscal and the similar number will be for the booster. So, that means the CNG packaged cost is roughly Rs.1 Crore, is that correct?

Suhas Kolhatkar: About Rs.1.2 Crores to Rs.1.3 Crores. And one-third of that would be about 40% of that would be the booster compressor and as our MD explained in the opening remarks, we already have about 80 in numbers, orders for booster compressors in hand booked in the month of April.

Dhavan Shah: Okay. So, we can do roughly Rs.400 Crores to Rs.500 Crores revenues from the CNG.

K. Srinivasan: Let's grow quarter-by-quarter. I think we have today orders for booster compressors , we have CNG orders, and I think hopefully, we should get them all done and we'll take it by the quarter.

Dhavan Shah: And the last one is on the Khione compressor. So, any update on that?

K. Srinivasan: It had a rather slow start to this. The compressors are performing brilliantly. Here, it is the establishment and acceptance of customers and then conversion. I think we are going through that phase. Hopefully, we should see scale-up in the second and third quarter.

Dhavan Shah: Thank you so much, Sir.

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

K. Srinivasan: Yes. So, let me say, thank you all, very much for your patience and confidence in the Company and understanding a rather difficult business because quarters don't easily come through in this case. We are not able to predict on a quarter, but we are able to predict more from the year, full year point of view. We expect over a period of time, the business will become far more smoother, and that's our target, to get the business to become more smoother so that we can predict quarter-on-quarter. We'll get there. But the overall competitiveness of the business and the opportunity to grow remains very strong. So, thanks for supporting us and having patience with this Company and we hope that we will not disappoint you going forward.

Thank you, all, very much.

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

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