"Kirloskar Pneumatic Company Limited
Q1 FY 23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Kirloskar Pneumatic Company Limited Q1 FY 23 analyst call hosted by Antique Stock Broking Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhirendra Tiwari from Antique Stock Broking Limited. Thank you and over to you, Sir!

Dhirendra Tiwari: Thank you. Good evening ladies and gentlemen, welcome to Q1 FY 23 post results conference call of Kirloskar Pneumatic Company Limited. We are glad to have with us today, Mr. K Srinivasan, Managing Director; Mr. Suhas Kolhatkar, CFO along with the other managing personnel of the Company. I would now invite Mr. Srinivasan to start the call with initial remarks post which we will take the audience to the questions and answers session. Over to you, Sir!

K Srinivasan: Good evening to all of you. Before we start the call, I request our Company Secretary, Mr. Jitendra Shah to read out the safe harbor clause, please.

Jitendra Shah: Thank you, Sir. Good evening to all. The discussion on the operating performance of the Company may contain statements relating to future business developments and economic performance that could constitute forward-looking statements. While these forward-looking statements represent the Company's judgments and future expectations, a number of factors could cause actual developments and results to differ materially from expectations. The Company undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances. Further, investors are requested to exercise their own judgments in assessing various risks associated with the Company and also the effectiveness of the measures being taken by the Company in tackling them as indicated during the discussion. Thank you.

K Srinivasan: Good evening to all of you once again. At the outset, wishing you all good health; we are in the midst of a great monsoon season, the munificence of the rain god would probably ensure that we are going to have a good harvest season followed by and also we will ensure that there is enough wealth going around for all of us to have a good year ahead.

Q1 FY 23 started on a strong note for us based on a strong order bank. The rapidly changing situation in the commodity prices, supply chain and logistic disruptions made execution that much more of a challenge. The global inflation and the general uncertainty created a slowdown in the order finalization; however, the enquiry flow continues to remain strong, particularly in the Oil and Gas space. Sales for the quarter were at Rs. 272 Crores as compared to Rs. 169 Crores of the previous year, a growth of over 60%. This was largely driven by project execution in Oil and Gas space.

The profit before tax grew from Rs. 9.8 Crores to Rs. 21.7 Crores, a growth of 121%. All businesses – Air Compressors, Refrigeration, Gas Compressors and Air Compression Systems, all did well. Export sales in the first quarter at Rs. 48 Crores, were significantly more than the exports that we have done in any full year, so far. However, the pricing and execution of one of these large export orders was a challenge and this impacted the overall material cost in the quarter. We do not expect this to continue in the quarters ahead.

The overall order bank was marginally lower at Rs.1,225 Crores compared to the opening order bank of Rs. 1,265 Crores earlier. We have several new initiatives coming up in Q2 and Q3, and this should ensure that we have a smooth order flow to meet our sales budget going forward. The overall order bank has been good. We expect to finalize several orders going forward. We have spent a capex of about Rs. 5 Crores in Q1 and committed another Rs. 10 Crores. We will execute the planned capex of about Rs. 40 Crores during the year FY 23 and this would help us to build capability and capacity required for our future growth plans. The overall cash generation from operations was close to Rs. 10 Crores in Q1 and this is in a way demonstration of the quality of our earnings.

Now let's discuss the results by our product line.

Air Compressor business: The Air Compressor business scaled up on the production of reciprocating compressor packages and centrifugal compressor packages for various applications, like metal production, LPG bottling, carbon dioxide for carbonated drinks, etc. We launched for the first time a range of stock and sell standard screw compressors for general applications. The initial response has been encouraging. The oxygen compressors for the oxygen plants and hospitals continue to be maintained and serviced by our team during this period post the COVID era, but we expect that this will ensure that even if the demand for oxygen were to pickup, the oxygen compressors would be up and ready to meet the requirements. We continue to be the preferred choice for even the air separation plants which deliver oxygen and we continue to have a leading position in this as well.

Refrigeration Compressors and Systems: There was a slowdown in the offtake of compressors for the cold chain and ice plants; however, we expect this to pick up in Q2. Major order finalization and execution for the petrochemical and hydrocarbon industries will happen in the coming quarters. We also have significant opportunities in the overseas market in this space. The Khione Screw Compressors for refrigeration has been through all the internal and external testing. We have been talking about this last year and we are happy to say that this is now ready for a formal launch. We will have this product out there during this quarter and this will meet the requirement of the pharma, food processing and dairy industries in India and South East Asia.

Process Gas Compression Systems: We executed a major export order in this space during the quarter, as I had already mentioned. This did pull down our contribution in terms of higher material cost, but this is one-off and we needed this to make an entry in this space. Consequently, this being an entry strategy, the margins were under pressure on this order and like I said this will only be for this quarter. However, it has given us an opportunity to expand market access and acceptability and based on this, several new orders are being negotiated for execution in this space. We surely hope to benefit from this going forward.

The dispatch of CNG packages was slightly curtailed by many of the gas companies due to their internal planning issues, as both, gas and site readiness was a challenge. We expect the gas companies to scale up their offtake of hydro booster compressors going forward to meet the mismatch of demand and supply as can be seen by the extending queues at the gas stations. We will formally launch our hydro booster compressor this quarter. It has already passed all internal and external testing. We have also completed the approval process that is required for launching this product. The O&M service business continues as normal across India and we continue to support and service our machines across 15 states. We have several large gas compression systems under execution and many of them will be dispatched during Q2 and Q3. We continue to focus on the newer export opportunities in the Middle East and we expect this will help us to overall scale up exports.

Outlook for Q2: The war in Europe, the logistic and supply chain challenges, the continuing shortages in chip and the depreciating Rupee have all, in fact, impacted the business environment. KPCL will be less impacted than others in this space as we are much less dependent on imports. Our value chain is predominantly in India. While we have the order bank to meet targets for this year, we need to work on our strategies to see that we benefit from the changing competitive landscape, so that; we can be more competitive and scale up our overall growth targets. Being a company that competes based on differentiated offering rather than efficiency and cost competitiveness and consequently, being less dependent on volumes; we are better placed to compete in this VUCA world. We are confident that with the new product launches and the emerging opportunities we will continue to maintain our growth momentum. We remain committed to our aspirational target of being a Rs. 2,000 Crores Company in the next two to three years.

I am now going to request my colleague, Mr. Suhas Kolhatkar, the CFO to take us through the financial numbers.

Suhas Kolhatkar: Thank you. Good evening ladies and gentlemen. I hope you were being able to go through the results which we had posted on the BSE website, yesterday after the conclusion of the Board Meeting. We also uploaded these results as usual and a presentation on the trends of Q1 results on our Company's website. I am sure you must have visited our Company's website also. But just for the benefit of those who probably did not get a chance to go through, let me summarize the results for the Q1 of FY 23. Before I touch upon the various elements of the financial performance, let me first broadly talk about some highlights of the quarter.

The Company during the quarter achieved, as Mr. Srinivasan said, couple of landmarks; the sales of the quarter were highest in Q1 and stood at about Rs. 272 Crores. The Company has also executed its major export order making its entry in the overseas Oil and Gas markets; that was something different for us because our exports on an annual basis were always about in the range of Rs. 20 Crores – Rs. 25 Crores; the order that we executed, the export for the first quarter were close to about Rs. 40 Crores. PBT jumped to Rs. 21 Crores compared to Rs. 9.8 Crores last year. The order book as on July 1, 2022, was also over Rs. 1,225 Crores.

Now, I will turn to the business results for the Q1. As, I said sales for the quarter were highest Q1 sales for the company at Rs. 272 Crores, which registered a growth of over 60% as compared to Q1 sales of the previous year. Export order to Oil and Gas sector in the overseas market and the project supplies in the domestic market helped us in achieving this milestone. With other income, which is not so significant, Q1 total revenue stood at Rs. 274 Crores compared to Rs. 172 Crores in the previous year, a rise of over Rs. 100 Crores.

Rising input cost in the recent times, coupled with a mix of project which was close to about 65%, for a product sale of 35%, project orders and the product orders and the cost was strategically accepted to export order, which Mr. Srinivasan talked about, so as to ensure our entry in the overseas Oil and Gas space, pushed the overall material cost for the quarter to 58.6% compared to 52%. Excluding this project order and the project cost, we would have been close to about 53% and that cost would have been lower than the previous quarter as well as full year FY 22 which stood at close to 54%. So there was no significant increase in the cost of other products except the fact that we had this strategic order to enter into the overseas Oil and Gas space. We expect material costs to ease to its normal level in subsequent quarters.

ERE was higher at Rs. 37 Crores compared to Rs. 32 Crores. This represents the promotions and the increments that we offered to our deserving employees during the year in line with the industry trends. The overall employee cost was about 13.7% of the current year sales compared to 19% in the previous year. There was no interest cost as the Company is a debt free company. At this juncture, I would also like to state that the Company has a net cash position of about Rs. 170 Crores as on July 1, 2022, compared to about Rs. 260 Crores last year. You may observe that during the last year the Company incurred a capex of over Rs. 90 Crores, paid dividend of Rs. 32 Crores and also repaid the loan of Rs. 40 Crores.

Depreciation is in line with the previous year and additions to assets that we have incurred so far. Other expenses is generally a mix of fixed and variable costs and are at 17.4% of the sales compared to 19.1% of the previous year. There is no significant variation in the level of expenditure during the current quarter, except that the normal level of pre-COVID expenses, are being incurred. EBDITA as a result in Q1 is marginally lower because of a higher material cost at 10.9% of the total income compared to 11.5% in the previous year. This was mainly on account, as I said, the drop of margins attributable to the rise in the material costs owing to the export order. PBT, profit before tax for the Q1 was at Rs. 21.7 Crores higher at 7.9% compared to 5.7% in the Q1 of the previous year, where it stood at Rs. 9.8 Crores. This represents 120% plus growth over the previous year. Profit after tax also rose to Rs. 16.3 Crores, which were at 5.9% compared to Rs 7.1 Crores in the previous year representing 4.1% and the growth in the profit after tax is close to 130%.

During this quarter, the Company issued 53,500 Equity Shares under the Employee Stock Option Program. Consequently, paid-up share capital increased to Rs. 12.9 Crores compared to the Rs. 12.89 Crores at the beginning of the year. Our basic EPS improved to Rs. 2.52/- per share on the Rs. 2/- paid-up share for the Q1 compared to Rs.1.10/- per share in Q1 of the previous year. With about 95% of the revenue coming from the compression segment, it remains the only reportable segment and the segment earned a profit of about 15% in the current quarter more or less at the same level of the previous year where we earned 15.2%.

With the increase in volume we are confident of achieving the annual profit margins for the segment close to about 18% to 19%. Order booking during the first quarter was close to about Rs. 250 Crores. As a result, the Company has an order book of Rs. 1,225 Crores, at the beginning of the year we had Rs 1,265 Crores. Our capital employed in the compression segment remained more or less at the same level at the beginning of the year and was at about Rs. 280 Crores. As indicated earlier, during the quarter about 65% business was on the project and balance for the products.

I think with this I would like to end my submission to the audience and we can now open question and answer session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.

Kashyap Javeri: Congratulations for a good set of numbers and thank you for the opportunity. I have three questions. First one is about the target of Rs. 2,000 Crores of revenue in next three years. I understand from your earlier report that the domestic market is roughly about Rs. 4,500 Crores, then there has to be a fair degree of contribution coming from the export side, which for us last year was the first year where we won a decent size of orders but for coming years how do you scale up or what would be the drivers of Rs 2,000 Crores of revenue, both product as well as geography, at least in terms of geography what could be the risks which are there including probably lack of product approval or something like that? That is the first question. Second question is on the raw material cost, I understand that we have a fairly short cycle projects, fairly short cycle delivery times, it ideally should have been slightly easier for us to manage that raw material cost; however, we have seen some gross margin contraction, so going forward are we looking at any strategies to manage that and the third question is we had this leasehold land which was converted into a freehold land, any particular reason why we could not have continued with it being a leasehold land and continued with our expansion?

K Srinivasan: Thank you, Kashyap. To answer your questions; exports would constitute between 15% to 20% of our overall sales, going forward. This is our objective. Currently, this is below 10%. We hope to get it nearer to 10% during this year but a longer-term target would be to take it about 15% to 20%, that is our objective. Our primary addressable market for immediate future has been Middle East and South East Asia. The primary range of products that we propose to export also, would be primarily projects, which we call as actually, let us say, equipment packaged and sold on skid so these are the ones that we will look for because there is an element of engineering and approval. Now we mentioned in the beginning of the call that we have had acceptance. We have executed a fairly large package roughly a value of about Rs. 35 Crores during the first quarter and we now have the required approvals to execute projects of significant size in this. This has actually gone into the gas gathering station which is what is called as an upstream project. This is the first level. Now if you get in there then you are easier into the other stages. We are there and that is an important part of our acceptance in this overseas market. As far as the raw material cost is concerned - Yes, this is an area that we continuously work on. There has been some moderation in the increase in prices of commodities as you would have seen. Our project cycles our equipments are sold between 12 weeks lead time, projects are anywhere between 6 months to 9 months lead time. We do factor in price corrections that are expected during this horizon. Extra-ordinary situation do come when these price corrections are significantly out of what can be prioritized and packaged. So there have been one or two exceptions but generally we are able to plan this cost increases in advance. As far as the leasehold land to freehold land conversion is concerned, we did have this land initially given to us as a grant land for an earlier project for us to hold on to it for an indefinite period; to meet our longer-term growth requirements we did need to convert it into a freehold land; we had gone ahead and done it. As we had mentioned in an earlier call as well as in the AGM today we are executing growth projects in this land and we will see how we can utilize it going forward. Does it answer all the questions, Kashyap?

Kashyap Javeri: That is really helpful. Just one last question in connection with the first part, so as of now, this is application in oil and gas. Eventually, the other products that we have including the Air Compressor used in the industrial part, how difficult would it be to get that product through in that particular market and beyond, then Middle East moving more westwards. Is there any plan for doing that also?

K Srinivasan: I think we did explain some time back, each of the businesses have a different kind of a product profile and market requirement, for the packages that we sell for oil and gas and for refrigeration. We do have refrigeration orders that we are executing in Middle East as well, these are projects in the sense they are what I call as a global business, you can manufacture it anywhere but execute it in any other part of the world, whereas equipment sale is generally a local business. The air compressors you need to have marketing presence in the markets that you seek to address, so you will have to have service centers, distribution and a whole lot of things to be set up. We do not aspire to be a large player in this market going forward, at least in the immediate future.

Suhas Kolhatkar: Mr. Kashyap, I did speak about the composition of our total projects in the first quarter, being a mix of product and projects and we also spoke about our major strategic export order to ensure the entry in the overseas oil and gas space. I would like to draw your attention that if you ignore this order, our raw material cost would be about 53% which would be lower than the previous quarter and also the whole year of FY 22. We have been able to look at our raw material cost, the short cycle delivery items are only in case of product sales. As far as project sales are concerned, our delivery times are ranging from 6 months to even up to 12 months or beyond and in that case there will be certain impact and that is what we have felt in the first quarter in terms of our strategic export order. We are confident that we will be able to get an appropriate mix to ensure that our overall material cost remains at historical levels, if not better.

Kashyap Javeri: This is really helpful. Thank you so much.

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

Vishal Biraia: Thank you for the opportunity and congratulations for the great set of numbers. My first question is on the demand outlook. Metals, cement, textiles are some of the key industries that use our compressors. So could you elaborate a bit as to what is the outlook currently for compressors from these? Thank you.

K Srinivasan: Thank you, Sir. The demand from metal, textile, etc. is primarily for the Air Compressors. The Air Compressor business for us is roughly about 25% of our total business. The demand for this as we see is muted. There is a certain slowing down of finalization of orders. There were a lot of inquiries but the finalizations are now being delayed, we are not expecting any major impact coming out of this to us at the moment.

Vishal Biraia: Is that because of orders from other segments growing faster?

K Srinivasan: Yes. As I said this is only 25% of our total business. The other segments are growing much better, particularly, the Oil and Gas segment as well as the Refrigeration which addresses petrochemicals, fertilizers, dairy, etc. and a whole lot of new products that is coming in, so for us the demand seems to be holding on for our objective.

Vishal Biraia: Fair enough and the launch of the new air screw compressor, so what kind of targets you would have set for revenue from this particular product?

K Srinivasan: The Khione screw compressors would address the refrigeration screw market, currently, being serviced by imports. The current import of this product into India is roughly about Rs. 100 Crores and that is an addressable market, that is available to us, we will have to see how we scale up and take this market.

Vishal Biraia: You are to launch our screw compressors; I think you have launched a screw compressor for a CFC also like R - 134A for food and pharma applications. This is also being met by imports, so this is the same Khione screw compressor or this is a different product?

K Srinivasan: This is the same stuff.

Vishal Biraia: Thank you.

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

Suraj Nawandhar: Good afternoon. Sir what would be the opportunity size for the new compressor that we have launched we spoke about the one what about the other one?

K Srinivasan: The Khione screw compressor we just spoke about that is on the refrigeration space. We did mention today morning as well about the hydro booster compressor. This goes on the Oil and Gas stations which are not connected to the gas network. This we have already talked about in terms of the number of compressors and the size of this opportunity in the 11th round of bidding. So roughly about 6,000 compressors is the market opportunity in the next three to five years and we will have to see how this is played out.

Suraj Nawandhar: Can you quantify it in amount terms?

K Srinivasan: These compressors sell at about Rs. 45 lakhs to Rs. 55 lakhs each. So if you take it as about 6,000 compressors we are talking of roughly about Rs. 3,000 Crores.

Suraj Nawandhar: Is there any seasonality in Q1 in our company wherein Q1 is usually weak in terms of revenue?

Suhas Kolhatkar: Well not really except that the export order opportunity which we had. Otherwise, everything was a growth coming from these standard products.

Suraj Nawandhar: My question is that if I look at last two to three years, the Q1 revenue is always lower and the Q2, Q3 & Q4 are higher?

K Srinivasan: Yes, so that is normal in any capital equipment cycle. Generally, at the beginning of the year till the budgets are allocated and orders are cleared, Q1 historically tends to be low and most of the projects and other things tend to get completed during the end of the year and this is a normal thing across this industry; however, this year we have seen a far more orders in Q1 compared to many years and this I believe will start changing over a period of time that orders become much more smoother as we have more of products that are not really packages of projects but equipment sales.

Suraj Nawandhar: What would be our bid pipeline currently?

K Srinivasan: The order on hand like we said, we already have about Rs. 1,225 Crores. The enquiries we have not been talking about, because this does not make sense. Generally, we talk of finalizing in many parts, very roughly about one in three order quotes we finalize, so our hit rate is about 30%. So we have significant orders under discussion.

Suraj Nawandhar: Thank you Sir.

Moderator: Thank you. The next question is from the line of Kunal from B&K Securities. Please go ahead.

Kunal: Thank you for the opportunity, Sir. My question is pertaining to the competitive intensity, are you seeing any major change in competitive intensity or competitive intensity becoming higher or it remains more or less status quo?

K Srinivasan: This is something which we have to see it evolve. Logically, the competitive intensity should decline with the imports becoming that much more expensive with the depreciating Rupee, increasing logistic challenges, etc. However, on an immediate basis we do see that there is a higher level of competitiveness in the market to finalize orders because the number of orders getting finalized has declined in the first quarter. So, consequently we do see that the competitiveness in terms of people wanting to pick those orders are higher.

Kunal: This is more related to slower market than anything else.

K Srinivasan: We have to wait and see how this plays out. We believe that the competitiveness is not really improved, so they cannot be more competitive by advantages, it is really a current market condition where people would like to pick whatever orders are being finalized.

Kunal: Your comment on order finalization being slightly slower. What is the sense that you are getting from the customers that you are talking to, I mean, is this anything transitionary or is there anything that is more structural that is worrying the customer, I mean, is this waiting for commodity volatility to settle down anything specific that you are picking?

K Srinivasan: I think all what you said is playing in the minds of people. Today, there is a certain level of uncertainty in demand, uncertainty of commodity prices, expectation that it could moderate, with all this playing up people are delaying the decision to make a commitment as long as they can , but that also puts up opportunities, that as and when they convert, the order have to be executed quickly, people with shorter cycle times, shorter lead times this is exactly what happened in the oxygen compressor story, people with value chain within India would all be better placed to take up orders as and when this cycle plays out and that is where we hope to benefit from.

Kunal: Sure, thank you so much and best of luck for the future quarters.

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

Anurag Patil: Thank you for the opportunity. In the hydro booster segment who are our closest competitors?

K Srinivasan: The hydro booster compressors have been around in a low key for a long time now almost 4 to 5 years. There are about 14 or 15 local players. There is no one major large company in this space. So there are local players who are delivering. The reason for us to get into itself is the fact that all the major gas companies have been pushing us saying that there is no one big player they would want one large, organized company to get into this space. So to answer your question plenty of players but no real big player.

Anurag Patil: So any market share target we have set for this segment in the coming year.

K Srinivasan: Tough to talk about it at this stage, as I said there are a lot of small players. This has to evolve and we have given the size of the market, we are the only large player to enter it, let it play out.

Anurag Patil: On the import side, in the presentation you have mentioned that we were at some beneficial stage compared to peers, so do you think this benefit will continue in the coming quarters too?

K Srinivasan: If you look at our major competitors in India, they are all playing what is called as an efficiency volume game. They have to make large numbers of standard products to be efficient and competitive. We clearly are playing a value-added engineered product game wherein we do a lot of customization, a lot of engineering, taking up a lot of difficult special products and executing it quickly. As markets go the way they are, we believe there is a niche space for us that will blossom and grow going forward. We expect to benefit from the changing conditions in the market and the competitive landscape going forward.

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

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

Balasubramanian: Thank you for the opportunity. Sir, Rs 1,225 Crores of order book if you could breakup industry wise?

Suhas Kolhatkar: It more or less remains in the same range about 25% from the Air, about 30% - 35% from the Refrigeration systems or the Refrigeration compressors and balance about 40% - 45% from the Gas compressors.

Balasubramanian: Thank you. My next question is on the export side. What kind of rise you are experiencing in freight cost, it is remaining elevated or you are seeing some kind of moderation?

K Srinivasan: At the moment all our major package exports are FOB. So consequently, we have not applied our mind too much on freight costs going up but it is a fact that there been a huge escalation in freight cost. We realized it from our imports but also the nightmare in terms of timely arrival of ship, etc., is becoming a challenge. So logistics overall is a challenge, mercifully for us our exports are FOBs so we are not arranging this and the customers are taking care of this.

Balasubramanian: Thank you, Sir. My next question is in terms of market share, CNG systems and oil and gas depreciation like what kind of market share in those business segments?

K Srinivasan: It is a question which is difficult to give one answer because we are now looking at the refrigeration market as well as the gas compression market for India, South East Asia and Middle East so then consequently, what we can look at an addressable market has expanded with that our market share, seems to be moving down which gives us more headroom for growth but generally, I would say that our market share in the addressable market is about 25%.

Balasubramanian: Thank you Sir. That is it from my side.

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

Vishal Biraia: Is there any pickup in opportunity from the biogas segment and how is the defense segment doing, is there a significant pick up there?

K Srinivasan: Just to quickly talk about the biogas, there has been a huge pick up again, Order finalizations are taking time but there is definitely far more traction on the biogas. It was actually picking up very rapidly before this war did disrupt because this is all driven by ESG funding availability, so in biogas there is a lot of interest, lot of enquiries, but we are not seeing as many finalizations as we would have hoped for. On the defense, there are a lot of enquiries again, a lot of discussions happening for us and for others, this is around the 'Atmanirbhar Bharat'. We have to wait and watch how this finalization happens. There is quite a few finalization coming up in Q2 - Q3 here there is no hold, they are finalizing pretty quickly, we will see how this plays out.

Vishal Biraia: Thank you.

Moderator: Thank you. The next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.

Akshay Kothari: Thanks for the opportunity. Just wanted to know while we do have some idea on the competitors on the air compressor side, who would be our competitors on the gas and refrigeration compressor side?

K Srinivasan: See these are like I said, global businesses, all the major global players are our competitors.

Akshay Kothari: That is great and you did mention in the opening comments that there were some weakness in demand on the Ref. Compressor businesses. So what could be the reason for slow down and demand in this sector?

K Srinivasan: The equipment sale as we call, the Reciprocating Ammonia Compressors primarily used for the cold chain, cold storages, etc. There is a reluctance in finalization of orders. We expect this should actually correct in Q2 - Q3. We have to wait and watch, we think this is coming out of two things one is there is a certain level of hesitancy to quickly place orders expecting that the prices are likely to moderate or could moderate but I think that expectation is definitely false simply because of the fact that the depreciating Rupee imports are going to be even more expensive. So, we will see how this plays out, hopefully Q2 - Q3 it should pick up.

Akshay Kothari: Lastly, more on the gas segment front, India is currently in a developing stage of gas market wherein capex is being planned. So compared to a developed gas economy like in the developed gas economy, how are they managing things, like do they have this hydro booster sort of system over there as well.

K Srinivasan: Most of the developed countries would not have hydro booster as a part of the vehicle filling processes. They would have a few boosters and very remote areas of our particular industrial requirement. The extent in which hydro booster is being planned in India is very unique to developing economies, hilly region areas where pipelines are still not available or it is too expensive to lay. So this is something which is unique to India and that is the reason why you realize from our side there was a very strong hesitancy from our side to get into it till about two years back.

Akshay Kothari: That is it from my side and all the best. Thanks a lot.

Moderator: Thank you. The next question is from the line of Mansi Desai from Dalal & Broacha PMS. Please go ahead.

Mansi Desai: Sir, my question was in regards to the order book trajectory that we have, so if we see last quarter versus this quarter the order inflow has been in the range of Rs.250 Crores, to achieve the target that we have of Rs 2,000 Crores when do we start seeing the order book trajectory significantly growing up?

K Srinivasan: That is really a tough question to answer. We do not need too much of a large order book, we need a combination of short cycle orders which will allow us to be executing it within 12 weeks to 14 weeks and then we need these long project orders. So, for us this Rs 1,225 Crores is good enough to meet our this year's plan, we would meet this year's plan requirement, but we need to get large orders win well in advance so that we have enough of these package of project orders for execution in the next year. Now, like I said we are in the midst of finalizing some of these orders, finalizing has been taking more than the normal time because of the hesitancy of customers to commit .We hope to see this uncertainty playing out and have orders finalized during Q2 and Q3.

Mansi Desai: My second question is on the export part of the business. Exports, we generally sell packages like you mentioned, even if only equipment and opportunity also and will the market be higher in the export market versus what they are right now?

K Srinivasan: We are still going to focus only on packages for exports and the market that we have selected for that in the first phase is going to be South East Asia and Middle East because this is a happening market, reachable and we can have the engineering capability to deliver and commission projects there. That is the project we are going to address. Equipment sale; yes, we do have some equipment sale happening to South East Asia. We will continue to do that and with the newer products like the Khione screws and others developing hopefully in the future, this business also will grow, but like I said, we will take this up as a second phase of our export growth.

Mansi Desai: Hydro booster compressors that we have you mentioned that there are 14 or 15 more local players what should be their capacity versus our capacity?

K Srinivasan: This is something difficult to answer because see the market itself is developing now. There are not very large number of installations in this. There are installations in different areas few of them, consequently, local people have been making and delivering 2 or 3 in a month or even less. So this is tough to answer because they are all small, no data available straightaway.

Mansi Desai: Could these hydro booster compressors also be an opportunity of selling this in the export market as well?

K Srinivasan: No, like I said the booster is a very unique product for the developing part of the world. There is no big market for a hydro booster overseas in the developed countries or even in South East Asia or Middle East. So there are a few opportunities in North Africa but we are not really looking at this as an important part of our export strategy.

Suhas Kolhatkar: The concept of hydro booster compressor has been there in India, as India has a very large geographical area to get covered by the city gas distribution scheme of the PNGRB. Now, the availability of the main station or what we call it, as a mother station, depends upon the pipeline spread which is done by the GAIL and wherever there is no pipeline available which carries the gas where the GAIL is yet to lay the pipeline or there are difficulties in laying the pipelines particularly in the hilly area or North - East area, the concept of this booster compressors has come up, because, in such cases what happens is a cascade of cylinders is filled with the gas from the main station and these stations on a truckload are carried to the various booster, various gas stations at the hilly areas. Now, these cylinders or the cascades are already at a certain pressure, so you need to pressurize to fill the vehicles only marginally and that is where the booster compressor comes in. So if the pipeline is there, then you have a very little pressure in the piped gas and that needs to be pressurized with our main station. So the idea of the booster station, we believe has come more or less in India, more than the developed countries, so we will find little opportunities for exports though there would be certain some cases. However, we need to get established in Indian market first before we can look at this export market for the booster compressors. Does that answer you?

Mansi Desai: Yes Sir, so it is basically more developing countries and maybe all the emerging countries where there could be an opportunity?

Suhas Kolhatkar: Yes, it is hilly area actually the terrain of the region is also important because there is no gas pipeline, you will need a booster compressor, because there you will carry the gas in the cylinders and it will be marginally pressurized to fill in the vehicles.

Mansi Desai: Thank you so much.

Moderator: The next question is from the line of Sonali Shah from Emkay Investment Managers. Please go ahead.

Sonali Shah: Thank you for the opportunity. I wanted to understand what percentage of our current order book is on fixed price basis? **K Srinivasan** Mostly all. We have very few orders which have escalation clauses.

Sonali Shah: I want to understand, judging by the export order that we executed in this quarter which had an impact on our gross margins. How many of our current orders in our order book, are say a year old or little over six months old, which could potentially impact our gross margins going forward?

K Srinivasan: Yes, how we work on this is like, wherever the orders are of a longer execution, like we said 6 months to 9 months, we do two things; one is we plan for this and price our product accordingly based on a certain expectation of inflation. The more important thing is we have a significant amount of advance stage payments that come in if you see that the advance that we hold at any given time is almost about a Rs 100 Crores. So back-to-back we make commitment to buy all key inputs which have to be put into this material, so material cost is secured on a back-to-back basis to ensure that our budgeting is within the cost that we had put in. In spite of it the numbers are terribly different, then it can change, but at the moment we expect, this one out that we had in the quarter, we will be fined from Q2 onwards.

Sonali Shah: Okay got it Sir and the second question is post the launch of the K series screw compressors and the hydro booster compressors are there any other product gaps that would be left in our portfolio?

K Srinivasan: There are several new products that are in the pipeline and I think we have to announce it as we are about to launch it or get it approved. We have like, I said, effective DSIR approved R&D, we are developing further screw compressors for defense applications, we have a new range of composite compressor. So yes, quite a few things that are being developed and we will announce it on every quarter basis as soon as it is cleared for acceptance.

Moderator: The next question is from the line of Renjith Sivaram from Mahindra Mutual Fund. Please go ahead.

Renjith Sivaram: My question is that we have seen a scenario in which the gas - CNG industry is facing a lot of hardship in terms of higher prices, availability of gas and even some of these user industries, majorly in Morbi and all are shutting operations because of availability of gas. So in such kind of a scenario are you seeing any slowness in activity of IGL or Adani Gas in terms of tendering for these gas compressors and because that overall the macro standpoint gas available to us because a huge issue not only in India but globally also even the Ukraine, Russia war. So do you see any slowness in that activity in terms of tendering?

K Srinivasan: We supply these CNG packages for the gas stations that fill gas into vehicles. These stations are available wherever there are gas pipelines. The orders are generally finalized at least 6 months ahead, most of the cases it is for the full year. So we have enough orders for them. We did mention in Q1 that in several areas there has been a delay in taking delivery of these machines, simply because either there is a shortage of gas already or the pipeline is not ready. Now, this is an interim step, if you look at it a little, like you already mentioned. Yes, there is a disruption in the gas supply chain globally but it will play out. India will get its gas requirement from other sources. We do have various contracts and I think it will happen. There has been a bit of a delay in a few areas but it will all come back because energy is required, gas is a better energy in terms of environmental impact compared to liquid fuel. So it is being promoted and pushed ahead of the other ones and it will come back.

Renjith Sivaram: Currently there is a kind of a slowdown in activity?

K Srinivasan: Not slowdown as much as, a disruption, would be a better word.

Renjith Sivaram: One more question on the same lines is that we are hearing that government is also planning to blend gasoline with ethanol and they are also going ahead and planning a phase II where they are going to be increasing the ethanol percentage. So that is one way and another way is promoting electric vehicles so if these two things are happening so don't you think this will cannibalize on the CNG station growth itself in the future?

K Srinivasan: To answer your question ethanol blending in fuel has been around for a long time. The percentage is being increased, that is, largely to reduce import of oil and consequently the consumption of diesel and petrol. It will not touch the gas business. In addition to ethanol which has been around for long the new one that is also being tried to be blended is methanol. There are pilot plants to develop and generate methanol from low grade coal, again low grade coal is available in India, methanol again would be blended with the fuel, which is largely imported. We have a role in it because we make compressors for this process from converting low grade coal to methanol needs a series of compressors and we already have established pilot plants for this and we are looking to scale up this as well along with partners who are in the methanol business. So short answer, they are two completely different value chain; gas business will continue to grow and the fuel business is some kind of an import substitution whether it is ethanol and methanol, it is to substitute imports.

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

Aditya Chheda: I just wanted to understand the process of sale with respect to the CNG packages, is it at company level or regional level or gas station per se?

Suhas Kolhatkar: You want to understand what is the process of CNG compressors?

Aditya Chheda: When we say CNG packages, is it like once we have for example on-boarded a particular company, we garner most of the orders from that at a pan India level?

Suhas Kolhatkar : No, it is a tender process. So there are several allotted companies who are the successful bidders like IGL or Adani or Torrent or MNGL or MGL, all such types of companies who are the successful bidders in PNGRB rounds of bidding – 9th , 10th & 11th etc., and they float the tenders and you have to be L1 for these tenders to be able to bag the orders. Most of the time these orders are also given along with the O&M contracts. So it is a composite order for the supply of CNG machines, CNG compressors as well as the operation and maintenance of those machines. The evaluation, is generally on the capability basis.

Aditya Chheda: Thanks.

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

Ram: Congratulations for a good set of number. My first question is with respect to the order book we have what is the proportion of project-based compressors in our order book and non-project-based compressors. My next question is with respect to the European region that we are. In last concall you mentioned that we would be planning to go to Europe region and export in Europe region, can you just give outlook on that?

K Srinivasan: The order split on the order bank is roughly 60:40, 60% project driven, 40% our equipment shorter cycle orders. exports we did say that we will focus on South East Asia and Middle East. We have no immediate objective of exporting anything to Europe. We do export of bits and pieces, but we have no specific targets to export there.

Ram: Thank you.

Moderator: Thank you. The next question is from the line of Kashvi Dedhia from Centra Advisors. Please go ahead.

Kashvi Dedhia: Thank you for the opportunity. Can you give us the bifurcation between products and projects like, what does it include and are the EBITDA margins different for them?

K Srinivasan: We mentioned that the split is roughly 60:40, 60% is projects, 40% is products, I must qualify again what we call as projects are basically packages on skids with engineering customization. It is not that we go and do site work and do some fabrication, commissioning, installation etc., at site. These are completed skid mounted packages that are shipped out to different sites. So that is the first qualification. The split is 60:40. The margins by and large for the compression segment as a whole is roughly about 18% is what we expect for the full year and that is what we have been delivering for many years now. You have seen some softer margins in the first quarter that will correct going forward.

Kashvi Dedhia: To reach our target of Rs 2,000 Crores what will be the segmental wise breakup, like it will be the same as it is currently or it will be different?

K Srinivasan: Yes, it will be the same that is what we have been saying roughly 25% coming from Air compressors, roughly 30% - 35% from Refrigeration, 40% - 45% from the Gas compression business.

Kashvi Dedhia: Thank you. That is it for my side.

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

Digant Haria: Sir, from your comments the brightest spot for the current quarter was the upstream oil and gas. So, if you could just explain a little more as to what is happening in that space, like are there new wells being dug or are the oil and gas companies using their record profits to upgrade their old kind of equipments and how long do you think this demand from this upstream oil and gas can remain strong, any colour on this would be good Sir?

K Srinivasan: The packages that we have done and the several that we are doing are all going into exports Middle East, North Africa. These are really some kind of export projects that they would like us to believe where they want to do it much quicker and we are all negotiating and finalizing these. Generally there is a demand to have some of what was not seen as viable or worthwhile gas collection stations all started up very quickly, one in areas where we have sour gases and gases that are not of a very high quality of pressure they still want to stack them up. There are areas where they are using this for injecting that means the gas itself is re-injected back into the well to get more oil out. There are a certain level of projects that are getting quickly cleared in these areas that is largely around Middle East, North Africa with whatever is happening in the world that we all read about. There is a demand pick up and consequently the ability of companies which have traditionally been executing these orders, predominantly from Europe or a few from America would find it extremely difficult to compete and do this in the time that they want it to be done. So that allows us a competitive space that we would like to maximize on and that is what we are working hard on.

Digant Haria: The Petroleum Minister recently said we are going to put 3,500 CNG stations in the next two years. Now we have done 3,500 stations in last seven years together and if we have to do 3,500 in just the next two years, are we as a company ready to supply whatever will come our way, if these 3,500 stations become a reality in the next two years?

K Srinivasan: We will be able to deliver all the gas stations that the country would require, between the largely two of us, we would be able to meet all the country's requirements so that is not an issue of capacity that is not an issue of capability. Our ability to do it exists, it should not be a problem.

Digant Haria: All the best and thank you for the opportunity.

Moderator: Thank you. Due to time constraint that was the last question for today. I now would like to hand over the conference to Mr. Amit Shah from Antique Stock Broking Limited for closing comments.

Amit Shah: Thanks Michelle. Thank you everyone for joining in the conference and I would also like to thank the management for giving us the opportunity to host the call. Sir would you like to make any closing comment?

K Srinivasan: Thanks to all of you. I know it has been a period of high expectation and we hope that going forward, we would meet these expectations and probably exceed them. Thank you all very much and good luck.

Moderator: On behalf of Antique Stock Broking Limited 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.