Kirloskar Pneumatic

Ref.: SEC&LEG/21

February 3, 2025

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai 400 001
Scrip Code – 505283

National Stock Exchange of India Limited
Exchange Plaza, C -1, Block G,
Bandra-Kurla Complex, Bandra (E),
Mumbai 400 051.
NSE Symbol: KIRLPNU

Dear Sir / Madam,

Sub.: Transcript of the Conference Call

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in continuation of earlier communication vide letter SEC&LEG/11 dated January 23, 2025; we inform that the Conference Call for Investors and Analysts was held on Tuesday, January 28, 2025 at 5:00 p.m. (IST) to discuss on the Unaudited Financial Results of the Company for the quarter ended December 31, 2024.

The Transcript of the Conference Call is enclosed and is available on the website of the Company viz. www.kirloskarpneumatic.com

You are requested to take the same on record.

Thanking you,
Yours faithfully,
For Kirloskar Pneumatic Company Limited

Jitendra Rajaram Shah

Digitally signed by Jitendra Rajaram Shah
Date: 2025.02.03 16:51:19 +05'30'

Jitendra R. Shah
Company Secretary
Membership No. 17243

"Kirloskar Pneumatic Company Limited

Q3 FY '25 Earning Conference Call"

January 28, 2025

MANAGEMENT:	**MR. K. SRINIVASAN – MANAGING DIRECTOR – KIRLOSKAR PNEUMATIC COMPANY LIMITED** **MR. RAMESH BIRAJDAR – CHIEF FINANCIAL OFFICER – KIRLOSKAR PNEUMATIC COMPANY LIMITED** **MR. JITENDRA SHAH – COMPANY SECRETARY – KIRLOSKAR PNEUMATIC COMPANY LIMITED**
MODERATOR:	**MR. AMIT SHAH – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day, and welcome to the Kirloskar Pneumatic Company Limited Q3 FY '25 Earnings Conference Call. As a reminder, all participants will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone.

I now hand the conference over to Mr. Amit Shah. Thank you, and over to you.

Amit Shah: Thank you, Mike. Good evening, everyone. On behalf of Antique Stock Broking Limited, I welcome you all to 3Q FY '25 Post Results Conference Call of Kirloskar Pneumatic Company Limited. To discuss the results, we have the senior management team of the Company, represented by Mr. K. Srinivasan, Managing Director of the Company; and Mr. Ramesh Birajdar, Chief Financial Officer of the Company.

I'll request Mr. K. Srinivasan to give us the opening remarks, post which we can open the floor for Q&A. Over to you sir.

K. Srinivasan: Good evening, let me start by wishing you all a very happy new year 2025. Much as we all like to live in happy, interesting times, may I hope that the year brings peace, progress, prosperity and most importantly, predictability to everything that we do. Thank you all for joining the call today. I have with me Mr. Ramesh Birajdar, Chief Financial Officer; and Mr. Jitendra Shah, Company Secretary.

Before proceeding with the business updates, I will ask Jitendra to read out the disclaimer statement, please. Jitendra?

Jitendra Shah: Thank you, sir. Good evening to all. The presentation uploaded on the website of the Company and discussion on the financial results during the earnings call may contain statements relating to future business developments and economic performance that could constitute forward-looking statements. While these forward-looking statements represent the Company's judgment 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 judgment 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: Thanks, Jitendra. So now let me go to the material part of the discussion. Q3 historically is a sharp quarter with holidays and block closures that we have during Diwali. Added to this, we had this year's challenges coming from an unusually long period of slow project execution and commissioning. The implementation of change -- the impending change in the government in the U.S. brought an uncertainty, particularly in the energy space. Getting all this, the continuing strong demand in key sectors of the Indian economy, food, dairy, pharma, mining, fertilizer and chemical, etcetera, kept us busy with continuing strong order inflow and execution.

Sales in Q3 was at INR340 crores as against INR308 crores of the previous year, a growth of about 10%. Most of the growth came from domestic market. Export sales for the quarter was at INR52 crores, same as that of the previous year. Order booking was strong and this leaves an order book of INR1,879 crores as on 1st January '25. This as compared to the INR1,475 crores of 1st April '24 is an increase of 27% compared to last year. This, in a way, is a good pipeline of orders in hand that will allow us to meet the planned growth for the current year as well as the year F '26.

A notable feature in the order booking for Q3 has been the strong order intake for newer products like the Tezcatlipoca centrifugal compressors, Calana boosters, Aria compressors, Khione packages. The Jarilo for biogas has made its mark, but the industry itself is still to resolve the biogas generation challenges. We are continuing on our efforts to build in-house manufacturing capabilities, both at Nashik and at Saswad.

The capex execution in this regard will be on budget. We have done about INR52 crores. We will do about INR100 crores for the full year. The company completed the share purchase by acquiring 55.26% equity stake in M/s Systems & Components (India) Private Limited. We are consequently putting out our first consolidated financial only with 25 days from this. The joint working between the 2 teams has started, and we expect to better address the process refrigeration market across key industries.

The company also entered into an exclusive selling arrangement with UMPESL, a Voltas subsidiary, who are leaders in supplying machines to the textile industry, and this agreement would allow us to increase our sale of Tezcatlipoca Centrifugal Compressors and other compressors to the textile industry. The net working capital was at INR297 crores, an increase of INR12 crores over the beginning of the year. This is largely coming out of several major packages waiting to be shipped during Q4. We expect that the net working capital which is now around 17% will go down to about 15% of sales by 31st March '25. The free cash generation from operations of YTD is strong at INR119 crores, and this supports the enhanced interim dividend announced.

Let's now discuss the results by product lines for the quarter. The air compressor business was flat with low offtake from most segments coming out of a general slowing down of the economy, except cement, pharma, carbon black and mining, which all continue to do well. The silver lining has also been a stellar performance of the Tezcatlipoca Centrifugal Compressor. We have significant orders on hand, and we will start investing to scale up production in the coming year. We expect this to help us in F '26.

Refrigeration, Compressor and Systems. The Refrigeration Compression segment continued to shine with strong order inflow from dairy, food processing, pharma and packages from the chemical and fertilizer industry. The sale of Khione Refrigeration package scaled up with strong order inflow. This we expect to continue even going forward. With the Systems & Components being in the family, our visibility and presence in the space will continue to go up even further, and we expect to have a better position in the refrigeration market going forward.

Process gas compression systems. This space saw the most uncertainty coming from a myraid of reasons, gas availability, pricing, biogas generation challenges, oil price and so as project execution delays, deferment, etcetera. Yet in all this, we remain strong and rooted. We shipped out record number of Calana albeit at a near zero margin, shipped gas packages to Indian customers and kept the over 1,000 filling stations serviced and running. We picked up CNG package orders for export, marking a shift from the traditional gas packages that we were all along shipping to the Middle East, MENA region. We believe there is a change in the MENA region landscape with more of CNG packages going forward.

While we won orders and shipped a few biogas packages with the new Jarilo range of compressors, we see that this space will go through a period of quiet as the biogas generation challenge is yet to be satisfactorily resolved. Scaling up of demand and shipment of Jarilo will happen only after this is resolved. We'll continue to participate actively in the hydrogen space with a range of offerings, including the PDC diaphragm compressor compressors.

We are in the process of executing the first package, a combination of KPCL and PDC compressors for a special project in Southern India, and this we will complete in the first quarter of F '26. Exports is expected to cross INR100 crores this year, and a lot of it will be driven by the new CNG package orders that we're shipping out to the MENA region.

Outlook for Q4 and F '25. There is uncertainty and a halting progress in several sectors coming from array of reasons, weakening rupee, oil price, gas availability, uncertainty around several green initiatives, et cetera. However, we see all this benefiting us in multiple ways. Being in most cases, the only domestic producer end-to-end, the strong order inflow in a way reflects a better conversion ratio coming from our competitiveness.

We expect to deliver a strong Q4 based on major packages under execution and continue to grow strongly in F '26. The continuing trust to enhance our competitiveness and capabilities, both in our R&D efforts and in in-house manufacture will only buttress our position further.

The various capex projects that we have undertaken and plan to take up further in F '26 will help us maintaining our growth momentum. At KPCL, one of our strengths has been our strong engineering capabilities coming from the near 200-odd engineers who work across the company. We are now working to enhance this by adding new capabilities in deep tech, borrowing on AI and robotics. We expect this to further enhance our offerings to our customers and allow us to accelerate our growth trajectory, achieving our first target of being a INR2,000 crores Company next year.

I'll now request Ramesh our CFO, to take you through the financial numbers. Ramesh?

Ramesh Birajdar: Thank you, sir. Good evening, and thank you for joining the call. I hope you have had the opportunity to view the results recently released on the BSE and NSE websites after the conclusion of the Board meeting. Furthermore, we have uploaded the presentation spotlighting the trends observed in the Q3 results on the company's website to assist those who may not have had the opportunity to view the results to allow me to share a summary of Q3 FY '25 outcomes.

Sales for the Q3 FY '25 was INR340.03 crores against INR308.56 crores of Q3 FY '24. Sales for the Q3 showed a growth by 10% over the previous year Q3 FY '24. Other income for nine months improved 23% to INR16.54 crores compared to INR13.47 crores in the previous year. Total income YTD ended December '24 was at INR1,062.51 crores compared to INR846.13 crores in previous year. The raw material to sales ratio for Q3 remains nearly unchanged compared to Q3 FY '24 in the percentage terms, 51.80% in Q3 FY '25 against 51.90% in Q3 FY '24. However, YTD percentage of raw material to sales has improved by 1.7% in 9 months of FY '25 due to product mix, better selection of orders and execution of large packages in Q2.

Staff cost, that is employee-related expenses stands at INR44 crores in Q3 FY '25, that is 12.90% of the total income against INR40 crores in Q3 FY '24 is 12.80% of total income. Increase in staff cost due to the salary correction in the form of increments, initiation of the operations at the forging plant in Nashik and hiring of additional manpower in FY '25 to achieve the growth of the Company.

Company has maintained the status as a debt free Company, and I would like to state that Company has a net cash position of INR296 crores as on 1st January 2025. Lower depreciation in nine months of FY '25 compared to nine months of FY '24 is due to impairment of RoadRailer assets in FY '24 and reduction and depreciation of lease assets, which are fully depreciated now.

Other expenses are mix of fixed and variable cost and INR202.80 crores in nine months of FY against INR159.31 crores in previous year. Increase in these expenses are mainly the surge in execution of the packages, enhanced level of service business and expanding activities in our Nashik plant.

Year-to-date performance for the first nine months of the current year shows an improvement in the EBITDA margin reaching 18.6% of the total income to INR198 crores compared to 14.7% of total income to INR126 crores in the previous year. In the ongoing fiscal year, year-to-date profit before tax, YTD PBT has reached to INR175.91 crores constituting 16.6% of total income against 11.5% to INR124.26 crores in FY '24.

Net profit after tax for initial nine months of the current fiscal year is INR130.41 crores that is 12.3% of total income in comparison to previous year INR97.17 crores, that is 8.6% of the total income. The Company issued 93,600 equity shares during the period ending on December 31, '24 under its Employee Stock Option Scheme by 120,800 equity shares issued in the previous year during the same period. As a result, the paid-up share capital increased to INR12.97 crores compared to INR12.95 crores at the begin of the year.

Year-to-date earnings per share in the current year has shown a growth by 78%, reaching INR12 per share, while INR11.30 per share was earning in the previous year FY '24. In line with our Dividend Policy, the Board of Directors has approved an interim dividend of 175% on the face value of INR2 per share, that is INR3.50 per share, while in the last year INR2.50 per share for the same period.

With about 94% of revenue coming from the compression segment, it remains only reportable segment, the segment earned a profit of 12.80% in the current quarter, while higher than the previous year, which was at 18.9%. The compression segment is consistently sustaining the profitability in the range of 18% to 20%.

As of January 1, 2025, company holds an order book of over INR1,879 crores marking a 27% growth compared to INR1,475 crores at the beginning of the year. This represents the highest order book recorded in the first nine months of any financial year. The segment assets experienced [INR59 crore surge compared to previous year. This is primarily in the inventory and in order to arrive at a capital employed for the segment current liabilities were reduced accordingly. As you may know that the Company recently acquired Systems & Components (India) Private Limited, a company situated at Village Patgaon near Murbad in Maharashtra.

Following this acquisition, Company has published its consolidated income statement for the first time reflecting the financial performance of both entities. Comparable details for the consolidated business will be provided after completion of a full reporting cycle of one year.

Now this forum is open for questions from investors.

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

Mihir Manohar: Sir, wanted to understand the offtake which was this quarter. I mean when we consider the order booking kind of order book, which was the last quarter and it has been good order booking, which has happened also in the last 6 months. But the order revenue recognition for this quarter was low.

So was there any client specific challenge or a package specific challenge where you have prepared those package, but it is yet to take off -- some color on that will be helpful. And you mentioned that Q4 should see better, is it that one should see a better Q4 for compensating that? That was the first question.

K. Srinivasan: Yes. So the audio has not been very clear, but I broadly understood your question. See, a couple of large packages in refrigeration as well as in process gas that will go out in January itself will compensate. Like I think we've been telling several times that our business still tends to be a little lumpy.

Consequently, it is poor to judge our results quarter-on-quarter. We have this challenge with some quarters, everything goes well. Some quarters, a couple of packages do not get shipped for various reasons, site not being ready, payment is not done, whatever, and they go in the next quarter. So this sort of, in a way, disrupts the numbers.

We will have a record Q4. And I think we will stay to what we committed saying that we will have an over 20% plus growth for the full year. I don't want to give a better number than that. It will be definitely well above 20%.

Mihir Manohar: Second question was on the other expenses side. When I see other expenses, they are up 27% on a Y-o-Y basis, close to INR71 crores of other expenses versus INR55 crores, INR56 crores on a Y-o-Y basis. I mean what is it that other expenses have gone up? I understand it is flat on a Q-o-Q basis. Because that is something which has resulted into the compression segment margins correcting by 20 to 20 basis points. So what has resulted in the other expenses going up?

Ramesh Birajdar: This is -- in the Q2, we have executed the large packages and that is the cost we incurred. Apart from this, we have the subcontracting charges in the year because of the large package execution and also we are executing the O&M business where increasing the top line as well at the same time, we are incurring subcontract fee charges for the O&M business.

K. Srinivasan: I think like you know, we maintain and operate about 1,000 compression packages in the stations across India. And they are managed through third-party contractors who are actually providing labor to man and run them. And so as the scale goes up, that will continue to go up.

Mihir Manohar: Okay, sure. Correct. And last question was on the Systems & Components side. What is the thought process of acquiring this? Is it for facilities? Is it for customers? How should one see the synergies going for this?

K. Srinivasan: Okay. Systems & Components is a Company that supplies refrigeration packages. We call it cooling systems for chemical, pharma industry primarily. We do not make package systems for this industry. We make our KCC compressors and sell them as a bare shaft compressor. And the OEs buy them and make packages. Systems there once upon a time, they are a very old Company. They've been around for more than 40-odd years. They too had bought KC-series compressors and done packaging.

Off late in the last 20, 25 years, they have been using compressors imported from China and other places to make packages and sell to this industry segment. Acquiring that would allow us to access one, alternate sources of compressors to get an idea of competitiveness, also to address this market, which is currently not being operated by us at all. And with our Khione range of compressors, this will be another good outlet for us to reach out packages using Khione for the pharma and the chemical industry.

Moderator: We have the next question from the line of Sanjaya S from Ampersand.

Sanjaya S: A couple of things. I just want to know about your order book pipeline. I understand that your order book is sharply up on a year-on-year basis. But compared to the first 6 months, this was a bit of a flatness and all the macro things that you have talked about. Can you just give us a sense of how order book will look like?

K. Srinivasan: See, the flatness has not been in the order booking. It has been in the sales execution. And that, in a way, also reflects in the kind of inventory. I know you had a chance to look at our numbers, you'll see our inventory has gone up significantly, which means there's a lot of our packages are waiting shipment. So really, the sales will get evened out after the Q4 numbers come out when the execution gets completed.

See, we do not have any stage billing of any of our packages. We do not do it like a project. We sell them as packages. Everything is built, tested and shipped out of the factory and invoiced in one book. So there is no stage completion kind of a thing. So this business will remain lumpy. And these would be exceptional quarters when a couple of things go and a couple of things don't go. We had the second quarter when a lot of the packages went third quarter, we had hardly any major package going. Fourth quarter will be a whole lot of packages going out. So you will see that on a year basis, we would even out.

Sanjaya S: Understood. My question was regarding the pipeline of order book. So will you -- are you seeing that strength in booking new orders again in current quarter? Because I understood that execution was an issue in Q3 and that will get compensated in Q4. But I'm just trying to see the demand side also and if you can give us some sense on that.

K. Srinivasan: Yes. So like we keep saying we operate in large areas. One is the air compressor, second is the refrigeration compression systems and the third is the gas compression systems. In the air compression systems, the general industry definitely has not been spending as much on capex as earlier. But there have been niches which have been doing exceptionally well, and that is where we have had a good order book.

On the second, as far as the refrigeration business is concerned, it is doing exceptionally well. If you look at all the capex spends that have been happening in India, they are primarily into food, food processing, dairy, chemical. They're all sectors doing well. Our refrigeration side order flow is exceptionally good. It is far, far higher than anything that we have ever had before.

The third segment is you look at it on the process gas side. Now the process gas side is seeing the maximum amount of difficulties coming from a multiple set of reasons. One is the gas availability and price. There is an on and off talk between various institutions and bodies saying, will they promote natural gas? Will they promote more of LNG and a whole lot of other things, which has slowed down the number of CNG stations that have been commissioned. People are doing with boosters. We do take some booster orders, but not too many of them because that doesn't make money. So the process gas side is definitely not doing as well as we normally expected. Added to that, the biogas is definitely not seeing the kind of traction that we see and the order finalization on hydrogen is also definitely not happening at the pace that is expected.

But overall, I would say our general order intake in Q3 was good. And we expect actually this to continue in Q4. So we are not seeing any kind of a massive slowdown or anything. Our order intake continues to be robust. That's why we keep saying we are quite confident of doing 20 plus for next year as well.

Sanjaya S: Understood. And last question that I just want to understand from you that you are doing this capex and you also said that one of your key new products where you are seeing strong demand, you will be further expanding capacity. So can you just tell us what exactly -- how much really the capacity expansions have been planned and where really are they going? And what do they do to your productivity and your margin outlook?

K. Srinivasan: Yes. So we have so far shared that we have invested in the fabrication area and the forging area. There are quite a few other areas that we will announce as soon as these plants are commissioned. So there are quite a few areas where we are investing. These would be to enhance our in-house manufacturing capability. In-house manufacturing capability does two things to us. One, it allows you to reduce your RM cost to sales. Two, it allows you to speed up execution and make you more competitive in the market. So we will continue to enhance our investment in these areas.

Also, these capacities are not the traditional investment somebody would see outside in a fabrication plant or a forging plant or the new ones that we are putting up. They are all done with a very specific uniqueness about them, either they are driven by circularity or they are driven by zero carbon emission, a whole lot of other things, which actually gives us a competitive advantage in the manufacture in-house. So this would help us in two ways, speed up delivery as well as improve our competitiveness.

Now the question you asked is capacity utilization. I would say a lot of this is make kind of a thing. It increases our capability. It also allows you to do better turnaround of products or orders. We do it quicker so we can do more. Generally, our capacity utilization would be between 60% to 75% in most areas. So we still have headroom for the growth that we have planned for next year.

Moderator: We have the next question from the line of Amit from PL Capital.

Amit: My first question is on the process gas side where you highlighted that the different kind of challenges which we are facing currently. I wanted to understand your view, the kind of growth which we are expecting 20% this year and 20% next year. Is it a right understanding that largely despite the slowdown in gas, are we expecting major growth in air and the refrigeration systems only? And some color on when the gas market for you is going to come back?

K. Srinivasan: So the process gas growth in this year as well as next year, we do not expect it to go to 20%. We expect it to be sub 20%. And even that is going to be to an extent, driven by the CNG packages that we are now exporting, and they seem to have surprisingly good traction. So we are doing more of it and that in the MENA region, and that is a good news for us. The big growth, like I mentioned, is really coming out of the refrigeration as well as hopefully from the air side going forward with Tezcatlipoca picking up. So these two would, in a way, compensate whatever little fall that we will have from the 20% target on the process gas.

Do we think this will be irreversible change? Not really because there are a couple of big, let's say, investment areas that the government and others have committed for biogas, hydrogen, et cetera. These are all not really scaling up at the pace and at the expected level. And consequently, this is all affecting the overall process gas segment for us. We expect that there will be a lag. It will not be a complete washout. There is a lag. It will take probably a year more than we expect, but they will come back.

So we are quite positive about it. We have our products in place. We have fairly good installation for people to refer to, and we believe that it will come back. Maybe we will have a year when the percentage that we always keep saying 40% to 45% for process gas may go down to the lower level of 40-ish and the refrigeration, which we talk of 30% to 35% may go to nearing 40%.

Amit: Right. Are we exploring more geographies for CNG gas packages?

K. Srinivasan: I would say cautiously, no for the moment. We are busy with what we have, and I think we will do first this year, we will stay with the area that we have opened up and use the traction that we're getting from the areas where we have established. We will not go out and do new things in the market.

Amit: Right. My next question is on the MOU, the partnership with -- for the Tezcatlipoca. Are the Voltas subsidiary is going to act as a distributor? And what is the business potential for Tezcatlipoca through that partnership?

K. Srinivasan: See, the textile machinery business is actually significantly run through this Company, the Voltas subsidiary. They have been selling -- representing very large companies other than us as well in the textile industry. They have two models. One is they stock and sell like a standard compressor for a screw compressor, they also would be an agent kind of a thing where they would book the orders and we would execute directly, particularly when the large Tezcatlipoca is done.

So the model would be both. One is they acquire business for us. Second is they will hold the inventory and sell for us. They would do both. The opportunity size, we believe, is about INR100 crores in the next 2 to 3 years.

Amit: Right. And possible to share what was the contribution of Tezcatlipoca in Q3 or first nine months?

K. Srinivasan: I wouldn't -- first nine months, I can tell you, we roughly did about INR30 crores, less than INR30 crores. Order booking would be double that and the sale of about INR30 crores or even less.

Amit: Sure. And then my last question, if you allow. In refrigeration compressors, the kind of growth which you have been explaining, is it broadly coming from the same industries which you highlighted, food process, chemicals? And with respect to competition, is it the market which is growing and the demand side opportunities which are expanding? Or are we also gaining market share? Or are we substituting any imports which were coming in India? So could you -- possible for you to highlight in detail about this segment?

K. Srinivasan: Yes. The three reasons, let me put it like this. The biggest growth comes from the food, dairy, pharma industry as far as the refrigeration industry is concerned. The big packages are all going towards fertilizer, chemicals. As you all know, urea imports is likely to be, let's say, discouraged or stopped by end of '25. Consequently, several ammonia terminals are coming up, are being installed on both sides for India. So consequently, whenever there's an ammonia terminal, there's a huge amount of refrigeration systems and we end up doing most of them. So there is a lot of activity in this.

Now the big thing, why we do win more is that almost all the refrigeration compressors today are imported. We are the only one who make all of them in India. So like I keep saying, even if the activity level in many cases goes down, our win rates go up because being a local manufacturer, we have tremendous advantage in terms of execution, up key cost of the projects, et cetera. So that's a big advantage, and it will only get enhanced as we start doing more and more work in-house.

Moderator: We have the next from the line of Swechha Jain from ANS Wealth.

Swechha Jain: Sir, I just have 2 questions. This Voltas JV . Just wanted to understand if you could help us understand in terms of the revenue potential, what kind of revenue potential are we looking at this from this tie-up? And second thing, in terms of the order book, what is the execution time line for this order book, sir?

K. Srinivasan: Okay. So on the first question, let me clarify, I think I didn't do in the first time. This agreement that we have with the Voltas subsidiary is a selling arrangement. So this is not a joint venture. UMPEL and Kirloskar Pneumatic have entered into an exclusive sales agreement, which will allow them to market our compressors primarily to the textile industry and to stock and sell them for specific areas, largely only for the textile industry. The revenue target for our product, we expect that they will do about INR100 crores in the next 2 or 3 years.

Swechha Jain: Okay. And so then how would the sharing arrangement would be between us and them? I mean, we would be giving them a commission for sales and how would that happen, sir?

K. Srinivasan: Yes. If they stock and sell, they get to make the final price. If they are procuring order for us, then they get a commission or a markup. Now these are exclusive agreements. So they are, let's say, private agreements, and we would like to keep it that way.

Swechha Jain: Okay. And on the order book execution time line, sir?

K. Srinivasan: On the order book, see, we generally say that most of the standard products or the standard lines of business, we call them as equipment, they go out in about 16 weeks on an average. The large packages tend to take anywhere between 8 to 12 months. So if you look at this INR18.7-odd crores of order booking, most of them would go out by end of next year.

There would also be about INR400-odd crores that may go to the first quarter or even second quarter of the year after. But we also continuously keep booking those short equipment orders that will get booked and executed within the same 4 quarters. So this gives you a rough indication. We have a INR14.5 crores of order bank, the next year sales should be at least that plus 20% or so. That's how we always look at it.

Moderator: We have the next question from the line of Ruchita Kadge from I-Wealth. Please go ahead.

Ruchita Kadge: My question was mostly on the process gas side. So with this increase, basically, the profitability of the CGD companies is coming down because of the lesser allocation given to them. So do you think that the capex is getting impacted because of it?

K. Srinivasan: And what you said is 100% correct. So that's what we said in the beginning in the opening comments. The gas availability to the CGD companies have -- the domestic gas availability has been reduced. Consequently, they are forced to buy more and more of the imported gas. As you would all see, there has been a tremendous growth, over 22% by value growth of LNG imports into India. And consequently, their final price that they put out on the CNG has gone up, which means the attractiveness of CNG for conversion of people to use it in the place of diesel also diminishes.

So this industry is going through a bit of a change. Consequently, the people are no longer investing or I wouldn't say no longer are investing unless keen to invest on pipeline and the mother stations. Most of the people are trying to cover up for the time being using daughter stations or the boosters as we call it, or Calana in our brand.

And that is why we're selling more and more of Calana's now. Is it profitable for us? No, it hardly breaks even. Why are we doing it? We want to be present. We are the only large Company doing and the customer wants us to be available.

But if you look at the total number of CNG stations that have been installed in the Company, you can see in the PNGRB website, we talk of 7,259 CNG stations established. I don't know how many are really running. Out of that, more than 5,000 of them or at least about 5,000 of them would be boosters, the Calana's. We don't put all Calana's there. This will be equivalent to that. About 2,500 would be the mother stations, which is where we have a significant share of the market. We are interested in doing more mother stations. We are not interested in the other part.

Ruchita Kadge: Okay. So the mother station is profitable for us, sir?

K. Srinivasan: Mother station is profitable for everybody provided gas is available and the people have invested in the pipeline.

Ruchita Kadge: Got it. But right now, we are not seeing much of mother stations. We're seeing most of the booster stations being installed.

K. Srinivasan: There are a few mother stations where pipelines are available. If you look at the distribution of CNG stations across India, the largest number of stations are in Gujarat, Uttar Pradesh, followed by other states. So Maharashtra plus maybe third or fourth. So it is there is a concentration where gas pipelines have historically been created. So the rest of the plays are all covered by the boosters.

So this is something where we said we called out saying that look, process gas is going through a pivot, and we are mindful of it. And we said that in this business, consequently, our 20% growth is not going to happen for the next year. It is not going to happen this year either.

But the other segments are picking up very well, and that will eventually give us through this 20% plus growth.

Ruchita Kadge: Okay. And sir, currently, out of our order book, earlier process gas used to be around 45%, if I'm wrong -- correct me if I'm wrong. Currently, how much is process gas as a percentage of your order book?

K. Srinivasan: So like I said, process gas used to -- we always target 40% to 45%. It would be in the lower end, 40% or even slightly below 40%.

Ruchita Kadge: Okay. And refrigeration would be in a higher range currently?

K. Srinivasan: Correct. So they said 30% to 35%, it would probably be going up to almost 40%.

Ruchita Kadge: And sir, on the air compressor side, we're saying that we can grow at around 20%. So which are the areas where we think that the growth would come from or specific industry?

K. Srinivasan: So we said in the air compressor business, the sectors that are doing very well are cement, carbon black, graphite mining, metal, pharma, all of them are doing well, textile, all of them are doing very well.

Ruchita Kadge: Okay. Okay. So you think majority of it should come from there?

K. Srinivasan: Yes. We are a very small player in the business. So we can actually grow much better because we will take market share as far as Tezcatlipoca is concerned. Otherwise, people have imported. Ours is the only India-made product, and we have a huge competitive advantage in this.

Ruchita Kadge: And sir, just one last question on the...

Moderator: Ms. Ruchita, we request you to kindly come back in the queue for follow-up questions. We have the next question from the line of Prolin Nandu from Edelweiss.

Prolin Nandu: So two questions, one on the top line and another on margin. So starting with top line, right? So you sound very confident on the 20% growth this year, next year and achieving your target of INR2,000 crores sales. But what we have seen in a typical capital goods industry is that some of these delays are actually destruction of orders, right, because you have to make the most of the cycle rather than -- it's not like a delay and next year also it will come. So how confident are we given the fact that, let's say, 1.5 years back, right, one of our key driver was C&G?

Now that seems to be no longer there. So is it -- is there enough room for us to grow X of the market as well? And can you share some data on market share as to how aggressively or strongly are we gaining market share, right? So just want to pick your brain on the top line and our INR2,000 crores target.

K. Srinivasan: Okay. So first, let me say why are we confident of this 20-plus growth, not only for this year, next year and probably even going further from there. And I'll explain a couple of things. One is, yes, if you go and look at the capital goods sector and you look at the company is marked out as bearish, a very bearish kind of a thing, we are mindful of it. While the overall manufacturing growth is about 9.6% last year, this year, it is being marked out at about 5.4%.

And for the capital goods sector, it will almost be 0 or negative. So we are mindful of what's happening. But what is the confidence that comes from? We have also realized that there is a pivot even in our own distribution. That's why I said our process gas, we have marked it down a little bit, 5% down, and we have marked up our refrigeration 5% plus. and we're quite confident of getting these numbers.

So -- and also where is it coming from? One, it is not that we are waiting for the market growth to give us growth. We actually are taking market share. We're becoming more competitive, and we are replacing a lot of import-driven businesses. So compressors still are very largely imported. There are moves to make them in India, but still this is a work in progress. Our cycle of business is two parts.

One, there is large capex-driven big packages. The other one is not so much capex driven. That is more efficiency driven. You buy an air compressor for a cement plant, it's almost like a process consumable. You probably do it every 3 or 4 years, and it keeps happening to even keep the plant running. Same is true in mining.

So a lot of our sales is not the traditional capex cycle where it happens once in 8-10 years. It is an operating expense that happens every two years or so. It's a maintenance kind of a business. You have to have it to keep the plant running. And in the cement and mining area, the compressors go out in every maybe 3, 4, 5 years at the most. So we keep replacing them and they have to be done. So there are -- and same is true textile.

Textile, we keep adding new compressors because the old ones can only run up to a point in time. So I think there is a certain level of renewal process that keeps the business running. There is still capex being spent and there, our win rates are much higher and will only get better as we become even more competitive.

Also, what we didn't talk too much about in this, and I was actually waiting to talk more about at the end of the year is a huge R&D effort and the new products and new IP that have been backing a new product that's coming out. We talked of a few. There are quite a few other surprises in the market that you will see as they come up. So we are reasonably confident that we'll have a good year-end.

And going forward, continue the trend of delivering 20% plus growth for quite some time to come. Two things. One, everything is going well, we're doing well, that's pretty normal. I think the real challenge comes when things are not going to be all that great, then comes customers having to make special choices to do things that are locally available, more efficient and then we tend to win better. So I think we are quite confident, and I think the best proof would be to see us in April.

Prolin Nandu: Sure, sir. All the best for that. Very heartening to hear. Second question would be on margin, right? So one of the pivots that you mentioned was this more pushing the pedal on the refrigeration side and slightly lower on the gas side, right? And see, another way to also look at your business is that there is a combination of products that you sell, packages that you sell and then also the projects that you go ahead and undertake.

So going ahead, let's say, in the next couple of years and together with some of these capex that you are doing, right, to bring down the raw material as a percentage of sales and in-house things. One is that the top line pivot in terms of mix, would it be margin accretive from your long-term guidance of 18%? Or would it be margin dilutive? And also, when would some of these efforts on backward integration start to -- we can see that then on the margin. And also, would there be some margin kicker because of some of the investments that you are making on the O&M side?

Ramesh Birajdar: I will answer this. If you see our investor presentation slide and the margin for FY '22 to FY '25 going from 15% to 21.8%. So we're consistently putting our efforts to improve the margins. One the reason is we are selecting the orders because the ample business is available. But at the same time, we are taking care for the top line as well as for the bottom line.

Apart from this, we are developing the product that is in-house manufacturing capability in the Nashik as well as in the Saswad which will give the reduction in the manufacturing cost and that manufacturing cost will push our top line because our commitment to the investors to maintain this margin between 18% to 20% will continue. And with this vertical integration or the backward integration, we'll maintain the margins a little bit more than that, but at the same time, we'll push the sales and we will achieve the top line.

K. Srinivasan: Let me add to what Ramesh said, you asked a question in terms of mix. See, what has happened is the process gas business is still available, not that it's dried up. And like I said, if you start doing more and more of booster business, and we said booster doesn't make much margin, almost makes nothing. So consequently, it will be margin accretive.

That's the reason we said let's not have too much of our growth aspirations stuck around process cat in the current phase of growth. We would rather do more of the refrigeration where we are able to choose a business which is still margin accretive. So overall, there's a bit of a modeling that we do to ensure that the company's margin stays above 18%.

The compression segment definitely above 18%, is about 20% and the company's margin going towards 18% plus. And that's a little bit of a modeling. We still have to look at -- we can probably do a little more business if you lose margin, and then that's what we would not like to do. That's what Ramesh has explained to you.

Prolin Nandu: Sure. Can I push one more question, if that's fine?

K. Srinivasan: Yes, go ahead.

Prolin Nandu: So just on the gap between compressor margin and company margin, right? Now I mean, while there is -- I assume that there is no longer a drag of Railroad, but what is happening there, sir? I mean any chance or any interest to offload that business?

K. Srinivasan: The RoadRailer business has been closed. And it is no longer -- it is being still held at about -- roughly about INR9 crores as asset held for sale. Now we have been trying to put it through various processes of selling. And today, great people would offer a scrap rate kind of a thing. I really don't have the heart to sell it as a scrap.

I can still recover that money, but I think I would rather get some respect for this product. Tremendous amount of effort has gone in, and I think we will probably get rid of that in the next quarters. But that's no longer a drag in our account. We're just holding it across.

Prolin Nandu: Okay. So then this gap should narrow, right, between the compressor margins and the overall company level margin. Is that fair? And if at all, what would be the drag for in case going forward, there would be a drag?

K. Srinivasan: There would not be a drag per se, but you see the overall margin of the Company would include at the EBIT level. Operating EBIT, there would be no drag. But if as a full company without the operating EBIT, then all our investments, etcetera, they may not give you an 18%, 19% return. We still hold almost about INR300 crores of cash. We hold investments in businesses, etcetera, right?

Prolin Nandu: Yes. So these are -- I mean there's no business which is dragging, right? I mean, apart from...

K. Srinivasan: There is no business drag. There is only a corporate cost that will not go. That is not in the segment. But otherwise, there is no business drag left in the system.

Moderator: We have the next question from the line of Sahil Sanghvi from Monarch Networth Capital.

Sahil Sanghvi: Largely, my questions are answered. Just want to understand the proportion of compressors related to hydrogen and biogas, would that be very small in our order book right now? Or is it meaningful?

K. Srinivasan: See, we have orders, which is not very big, but there are orders for biogas and the projects are not happening. The orders have been placed, and they are being still sort of, I wouldn't say put on hold, but they're sort of deferring it because the gas generation is not happening to plan due to global story out there. I think in India, I think 80 biogas plants are set to have been commissioned.

Only 40 of them are nearly in any kind of operation. They are not, even most of them are not generating biogas at the planned level. So there is a bit of a reluctance for new projects to take it forward. I think it's an evolving process. Only then will the clearances come for commissioning like I said, compressors. We're not worried about that, but it's about a few crores. It's not hundreds of crores. So that's quite okay with this.

On the hydrogen, we have only one order that we are executing. That also is not nearly 100% hydrogen. But that's an order that we have that we will get out of our system by first quarter. Otherwise, now the orders are finalized yet. But there is something like about INR600 crores to INR700 crores worth of quotation out there for hydrogen compression packages. Maximum amount of quotations are out there, various stages of discussion.

Sahil Sanghvi: And that will close probably in the next year, is it?

K. Srinivasan: I really don't know because the numbers what we're talking of are disproportionately large for people to digest this level of hydrogen. So let's see where it goes.

Sahil Sanghvi: And we would have a good share in the hydrogen side, right? I mean, because we are doing a good portfolio on I mean product portfolio-wise and we are doing a lot of products.

K. Srinivasan: So as the packages get finalized, we will end up doing a lot of work in hydrogen space because we have the PDC tires and the recip compressors are made in-house by us. So the package together is a very proven competitive package and people will be happy to take a proven competitive package in a space, particularly where everything else is a little bit unknown. So we prefer at least this to be a known thing. We have huge opportunities. But like I said, this has to move from excitement to execution.

Moderator: We have the next question from the line of Dhavan shah from AlfAccurate Advisors.

Dhavan Shah: My question is on the order inflow side. So if I look at the 9-month FY '25 numbers, I think we ended up with INR1,400 crores kind of the order flow till date, which is only 20% Y-o-Y growth. So based on your commentary, I think we are seeing green shoots in the refrigeration segment and the other 2 are still going into the challenging times. So based on the, let's say, if we can end roughly INR1,800 crores, INR1,900 crores kind of the order flows this year, so on that basis, do you foresee alone refrigeration segment can give you 20% order inflow growth for FY '26?

K. Srinivasan: I do not have the 100% all the numbers that we said in my, so I not be able to confirm that. But all I can tell you is next year, F '26, our ability to execute about INR2,000 crores of sales is covered by the orders that we are getting in. So that is the confidence that we keep saying that we will deliver 20-plus percent growth.

Dhavan Shah: Right. But yes, that's correct. On the revenue side, I think we can do 20% growth. But in terms of the order flows based on the current pipeline and based on the current trajectory, do you foresee this 20% order inflow growth can also come in FY '26?

K. Srinivasan: I believe so. This year, we will -- see, as of today, the order book is about INR1,879 crores. We will probably end the year around the same number because we don't have a massive execution in Q4. There are also quite a few orders to be finalized. So if you're going to start the next year at around anywhere between INR1,800 crores plus. I think for us to book another 20% on that should not be a difficulty.

Dhavan Shah: Okay. Okay. And I think you mentioned that there is some increase in the working capital, and that is mainly because of the delay in the shipment. So can you share the number, how much was the delayed from Q3 to Q4?

K. Srinivasan: I gave you the working capital that we are holding now is INR297 crores. And we are planning a big Q4. I can't give you an exact number, but said this will definitely keep our overall sales for the year well above 20%. So you will see a significant reduction in the net working capital. I got to be careful because a lot of what is in inventory would also get converted to, let's say, debtors receivable. But most of them, we also want the customers to pay before they lift it. So we'll do both. We'll see how much it gets reduced.

Dhavan Shah: And so basically, I just wanted to understand this INR340-odd crores top line number for Q3, is it fair to assume that if that order would have been dispatched in the third quarter, our revenue would have been similar to the second quarter, INR430-odd crores?

K. Srinivasan: At least it should have been nearer to INR400 crores. You always understand historically for every company in India, Q3 is smaller than Q2 because the number of working days and the activity in Q3 is significantly lower. There are block closures for Diwali, there are a holiday season. So for almost all manufacturing companies, Q3 is a smaller quarter compared to Q2.

Dhavan Shah: Understood, sir. And in terms of gross margin given that in the overall order backlog, I think the Ref business has gone up in terms of the overall contribution. So how is the gross of Ref versus air business?

K. Srinivasan: See, we have been always saying that we don't segregate and tell you the margin between businesses. We do a little bit of modeling. Each business, by and large, gives about the same 18% plus. It is within this segment, if you do more of a booster, then the margins of PGS in that quarter will fall. If you do more of packages in some of these businesses, the margins go up. So it's a bit of a modeling. So you must -- for all your projections, you must take it that each segment, that is refrigeration, air conditioning and process gas all delivers about 18% plus.

Dhavan Shah: Understood. Understood. And this unallocable of roughly INR50 crores, INR60-odd crores annually, is there any chance of -- can it go down to maybe 1 year down the line or 2 years down the line? Because our earlier guidance was to reduce, if I'm not wrong. And that was like INR50 crores, INR60-odd crores annually that happen since last many. So is there a chance of reduction? Unallocable expenditure INR55 crores to INR60-odd crores.

Ramesh Birajdar: We are trying to control that and further trying to reduce that. But as on date, it is difficult to answer your question.

K. Srinivasan: You take that the corporates have overall corporate expense, corporate office, corporate headquarters, everything. We control it, but it will not go to 0, then I'll not have a job.

Moderator: We have the next question from the line of Nishant Gupta from Minerva Global Capital. Please go ahead.

Nishant Gupta: Sir, one question on the capex side. So this year, you have provided the guidance. Going forward what kind of normally developed capex that will be incurring?

K. Srinivasan: See we've been saying that our capex to sales ratio is between 1:3 to 1:4. We can even go to 1:5 in some cases. But you can take on an average 1:4. We are planning a growth, let's say, at 20%. Our capex will be around INR100 crores at least for the next year and it will even go up further from there.

Nishant Gupta: Got it. Sir, on the net working capital, since you mentioned at the beginning that it will normalize to the 15% of the sales. Going forward, since the refrigeration will pick up more, will this percentage change up or down? Or this is something which can be considered as a normalized?

K. Srinivasan: So 15% for an Indian company operating a mix of equipment and packages is a reasonably good net working capital. We can and we have a target internally to work to say how we go down to 12% and then to single digit. So these are a lot of things that has to happen where structurally, we must become more equipment driven. See, today, almost my entire sales is build to order, build directly to customers.

There is very, very little that goes to an intermediary in between. So I manufacture and I directly sell. I don't have anybody in between. There's no secondary happening. So all this means that I carry everything. I carry my inventory, I carry my -- I don't have a finished good, but I have a good that is in process or then I give it to the customer, it's the receivable.

So there is a bit of a challenge in the current structure. So anything which has to go significantly lower than 15% would then have to be structurally a modified business where we have more equipment, less packages, etcetera. It is an intent, but we'll work on it on a long-term basis. It can't happen overnight.

Nishant Gupta: Got it, sir. So just one small final question. On the AMC, what is the percentage contribution from the AMC recurring bit which you will?

K. Srinivasan: See, generally, we say services account for about 15% of our total sales. This includes spares and the AMC combined because most of our AMC includes labor and spares combined. So we generally say spares and service combined is about 15% of our sales. And this also makes about the same contribution as the regular business, about 18%.

Nishant Gupta: Got it. And just one clarification. So in the order book, you don't mention the service and the spare, you don't club that, right? That is separate that you'll be getting, right, from the projects to?

K. Srinivasan: INR1,879 includes O&M.

Moderator: We have the next question from the line of Amit from PL Capital.

Amit: My question is on the imports. You highlighted that most of our products are also kind of substituted to imports and in-house, locally made. I wanted to understand across 3 segments, air compressors and refrigeration and gas, on industry-wide, what should be the import consumption in India? And what is our market where we are getting revenue purely because of the import substitutes? Any color on this would be very helpful.

K. Srinivasan: This is almost an impossible question to answer, because what is imported in each of the segments is very, very difficult for us to say. They come as compressors, they come as a part of an equipment, they come in multiple forms. So, I think that would be -- it would be a very difficult guess. What is that we do as a business, we have already shared with you.

Why are we getting more orders in some spaces, we believe because the others, even if it is, let's say, a company, a compressor company located in India, he would be probably importing the air end, probably importing quite a few things that eventually go into the compressor. So when he sells in India, though he builds in rupee in India, it is almost an imported equipment, just labeling done here.

So how do I say that? So I would say that our business is reasonable. We believe we are winning more because in the market, we become more competitive because we're making it here, whereas others are dependent to have a significant part of their value chain coming from outside. It may not be the entire compressor package. It could be the air end, it could be whatever. And so that actually is the difference. So I think it's a complex question for me to give you a straight number answer for this.

Amit: But broadly in the overall compressor market, what should be the import or any color if you have any understanding on Chinese import or any other import on the low-end?

K. Srinivasan: What I can give you is Chinese air end import for the air compressor business is roughly about 30,000 compressors. And almost all the big names in compressor, they import their air ends. They import it from either their parents in Europe or they import from China, whatever they get it from. Even the parent would probably have most of it made in China anyway. So I think a lot of the parents whoever a big compressor company who sell in India, most of them import air ends.

Amit: And we are completely in-house in that?

K. Srinivasan: 100%. We already said the big packages where API compliant, we do have partners, we use air compressors, but that is a few numbers. We're talking of 15 numbers or 30 numbers.

Amit: Right. Lastly, if I can chip in on the Tezcatlipoca air compressor. The competition intensity is already the established players like Atlas, Ingersoll, Lv. So how are we planning to take the market share or some more color. So I understand that the product launch has been going pretty well for you. But any sense on competition there once you enter that market or already getting some sense?

K. Srinivasan: So the test Tezcatlipoca, what we have launched is at the moment, we have 3 sizes that have been launched and around that, there are several other models. So -- and in that range what we have launched, it doesn't cover the entire model, we would probably be by far the most efficient, most competitive and the Western class in India for an Indian customer.

The names that you mentioned, all of them import either the entire compressor or definitely the air end. So they have really, let's say, if we are dumb marketing guys, maybe in 5 years, they would all find it difficult to sell any. If we are reasonably good, we should be able to make it difficult for others to sell even in 1 or 2 years.

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

K. Srinivasan: Yes. So first of all, thank you all for taking this late call. I know there were other interesting opportunities before, so we had to take the 5:00 o clock slot. Thank you all for attending the call. I know these -- like I said in the beginning, the key word that we want to have as a driver for us is predictability.

We want to have our numbers even more predictable going forward. We have challenges that we mentioned always saying that quarterly numbers don't get it by a quarter, good or bad. We had a good quarter in Q2. We didn't have a good quarter in Q3. We hope to get back with a strong number in Q4. And going forward, let's work more strongly to deliver more predictable the numbers quarter-on-quarter. We are quite confident that we'll keep doing it. We are in a good business, and we'll see you all happy next quarter. Thank you.

Moderator: Thank you. On behalf of Kirloskar Pneumatic Company Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Ramesh Birajdar: Thank you.