



kirloskar

Pneumatic

Kirloskar Pneumatic

11th September, 2023

Kirloskar Pneumatic Company Ltd

Founded in 1958, Kirloskar Pneumatic Company Limited (KKPC) is a leading player in India's industrial sector, celebrated for its air compressors, pneumatic tools, transmission systems, and road railers. As a vital component of the esteemed Kirloskar Group, KKPC has established a legacy of innovation and global excellence. With over six decades of engineering and manufacturing expertise, KKPC offers a comprehensive product range, spanning reciprocating, screw, and centrifugal compressors, catering to a wide spectrum of air and gas applications. KKPC's influence extends well beyond India's borders, backed by a substantial 60% market share in oil and gas refrigeration and an impressive 65% share in CNG systems. Over 95% of its total revenues originate from the compressor segment, which is further diversified into air compressors, gas compressors, and refrigeration and air conditioning segments. A commitment to sustainability is embedded in KKPC's ethos, with dedicated efforts to reduce its carbon footprint. In addition, KKPC operates three manufacturing units located in Hadapsar, Saswad, and Nashik, reinforcing its manufacturing capabilities and distribution reach. With these factors in play, KKPC continues to be a driving force, shaping the industrial landscape through its diverse offerings and an unwavering pursuit of excellence.

Investment Rationale

» **Strategic Export Surge Fuels Kirloskar Pneumatic's Growth:** Kirloskar Pneumatic aims for a 25% sales market share, driven by strong exports post-FY23. Successful MENA compression projects, including a Rs1,000 million venture, showcase its export prowess. Enquiries of Rs7,000-8,000 million from MENA's Oil and Gas sector highlight potential growth. Expansion into gas compressors and the ASEAN region promises substantial gains. Exports are set to double to Rs7 billion with a 27% CAGR, raising export revenue share from 14% to 16%. The company's efficient engineering of comprehensive packages is a key advantage.

» **Unique Opportunity in India's Rail Logistics Expansion:** Kirloskar Pneumatic holds a unique position in India as the sole roadrailer manufacturer, bridging road and rail logistics. As India's Ministry of Railways plans substantial wagon procurement, an exceptional opportunity emerges for roadrailers. The company's established track record and collaborations, along with India's evolving logistics landscape, position Kirloskar Pneumatic for significant growth. This distinct positioning makes it an attractive investment option in India's ever-changing transportation sector.

» **Impressive Order Book and Growth Trajectory:** KKPC's robust order book has been a key driver of its growth strategy, demonstrating a significant increase over the past five years. Despite occasional fluctuations, the company's ability to secure new business remains impressive. KKPC has also received substantial inquiries, particularly from the MENA region's Oil and Gas sector, showcasing its export potential. This steady growth is underpinned by the company's commitment to operational efficiency and timely deliveries.

Outlook

Maintaining a neutral stance, we acknowledge Kirloskar Pneumatic's positive growth prospects but remain watchful of challenges in the form of supply chain disruptions and competitive pressures. The company's strategic initiatives and operational efficiency are encouraging, yet the evolving market dynamics warrant careful observation.

Stock Data	
CMP	620
52 Week High/Low	700/510
Face Value	₹ 2
Market Cap (In Crs)	4010
NSE	KIRLPNU
BSE	505283
Bloomberg	KKPC:IN
Sector	Compressors

Shareholding Pattern (in %)		
	JUN 23	MAR 23
Promoter	39.00	39.00
FII	0.40	0.51
DII	30.87	29.28
Public	29.75	31.21
Others	-	-

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	2.17%	12.63%	12.35%
Kirloskar Pneumatic	1.47%	0.40%	7.35%

Key Ratios	
P/E	36.40
P/B	5.03
Debt To Equity	0.00
ROE	14.6%
ROCE	19.5%
Dividend Yield	0.90%

Company Background

Founded in 1958, Kirloskar Pneumatic Company Limited (KKPC) has emerged as a notable entity in the Indian industrial landscape, excelling in the production of air compressors, pneumatic tools, transmission systems, and road railers. Integral to the revered Kirloskar Group, a renowned industrial conglomerate, KKPC has etched a legacy of innovation and excellence that reverberates globally.

Drawing on decades of dedicated engineering and manufacturing expertise, KKPC boasts an impressive product range encompassing reciprocating compressors, screw compressors, and centrifugal compressors. This array addresses a wide array of air and gas applications and is marked by remarkable capacity versatility, spanning from 30 cubic feet per minute (CFM) to an impressive 10,000 CFM. The company's adeptness extends to managing pressures ranging from 1 bar to an extraordinary 250 bar, showcasing its commitment to tailored solutions.

KKPC's operational prowess covers the entire value chain, encompassing design, manufacturing, sales, and service. Its global influence is palpable as it reaches beyond Indian borders, solidifying its international presence. A market leader in crucial sectors, KKPC commands a significant 60% market share in oil and gas refrigeration systems and an impressive 65% share in CNG systems. These feats underscore its industry leadership. Furthermore, KKPC's contributions span railway gears & pinions and road railers, reflecting its multifaceted competencies.

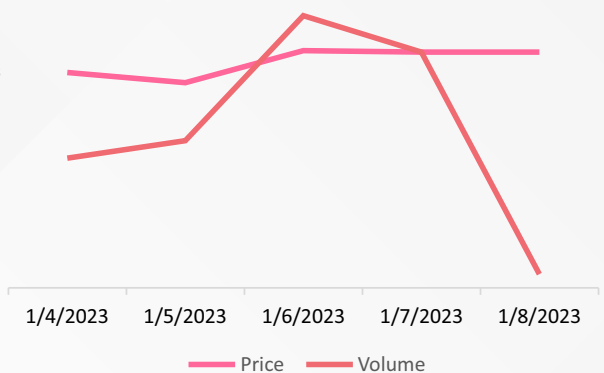
At the heart of KKPC's revenue structure lies its compressor segment, contributing over 95% of total revenues. This segment breaks down into air compressors (25%), gas compressors (45%), and refrigeration and air conditioning (30%), attesting to its diverse revenue streams. The company's strategic approach to resource allocation is manifest in its capital-efficient model, necessitating a mere \$30 investment for every \$100 of sales. Capital investments are diligently maintained at 3-5 times the scale of topline sales, reinforcing its sustainable operational framework. Notably, KKPC's commitment to sustainability shines through its conscientious efforts to minimize its carbon footprint.

KKPC's dedication to engineering excellence is vividly demonstrated through large-scale compressor projects.

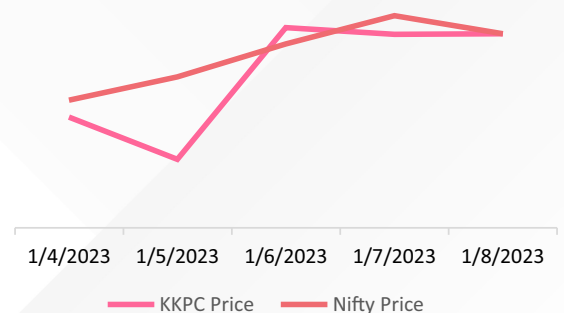
The company efficiently delivers air compressor units within 6 to 12 weeks, while comprehensive projects extend over 6 to 14 months, encompassing meticulous design, construction, rigorous factory testing, and comprehensive operational and maintenance support.

The trajectory of Kirloskar Pneumatic Company Limited, spanning from its inception to its present eminence, is a testament to its unwavering commitment, technological innovation, and global vision. As an integral component of the Kirloskar Group, KKPC continues to shape the industrial landscape through its diverse offerings and a steadfast pursuit of excellence.

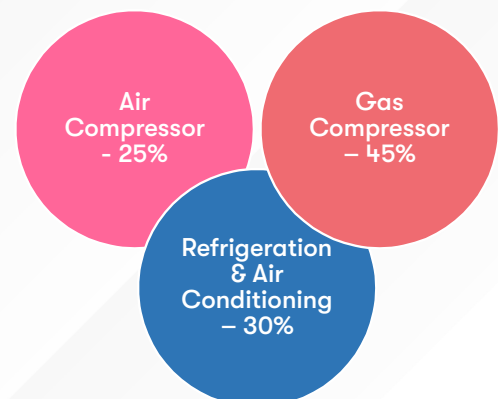
KKPC Price V/s Volume Chart



Price of KKPC V/s Nifty



Compressor Segment Break-up



Business Verticals



Air Conditioning
& Refrigeration



Air
Compressors



Process Gas
System



Transmission

Air Conditioning and Refrigeration Systems: Kirloskar Pneumatic Company Limited embarked on its journey by manufacturing Air Conditioning & Refrigeration compressors (equipment group), subsequently expanding into comprehensive refrigeration projects. The Refrigeration Projects sector specializes in Lump Sum Turn Key (LSTK) Projects, encompassing the entire process from planning, designing, manufacturing, installation, to the commissioning of Refrigeration Systems.

The ACR Division proudly offers three distinct product lines, each serving specific needs. The Reciprocating Open-Type Compressors play a vital role in air conditioning and refrigeration systems, ensuring effective cooling and precise temperature regulation across diverse environments. The Process Refrigeration Systems cater to a wide range of industries, including Refinery, Petrochemicals, Chemicals, Fertilizers, and Marine sectors, maintaining optimal conditions for critical processes. Additionally, the Vapour Absorption Chillers hold significance in both Process Cooling and Air Conditioning applications, contributing to energy-efficient cooling solutions. The ACR Division's products come in various capacities, ranging from 50 to 500 TR for ACR equipment, 90 to 500 TR for Vapour Absorption Chillers, and an impressive capacity of up to 15000 TR for Refrigeration Systems.

Air Compressors: Kirloskar Pneumatic's Air Compressor Systems encompass an extensive array of compressors across 15 product categories. These categories are strategically divided into Reciprocating Compressors, Screw Compressors, and Centrifugal Compressors to ensure specialized expertise. The offerings cater to a diverse range of applications, offering solutions for various compression needs. With capacities spanning from 30 to 10,000 CFM, Kirloskar Pneumatic provides versatile Air Compressor options that find utility across industries, enhancing efficiency and performance in tasks requiring compressed air for processes, pneumatic tools, and other essential operations.

Process Gas System: Kirloskar Pneumatic has solidified its reputation as a leader in Gas Compression Packages in India. With a remarkable track record of supplying over a thousand packages in the region and beyond, the company's name has become synonymous with quality and reliability. Amidst the growing emphasis on reducing carbon footprint and decreasing dependence on fossil fuels, India's gas requirements have witnessed a surge. To navigate the capital-intensive nature of infrastructure installation and mitigate risks, KPCL offers a globally accepted solution - renting the heart of these systems. This innovative approach not only facilitates seamless project execution but also allows companies to allocate capital investments more strategically. KPCL's rental fleet comprises modern units designed for operator-friendly and efficient performance in diverse operational environments, making it a swift, pragmatic, and cost-effective solution for gas production and distribution companies.

Transmission: KPCL's Transmission Division stands as a pioneering force in India's railway transmission product landscape. This division excels in providing tailor-made power transmission solutions, possessing expertise across a spectrum of gears and gearboxes, ranging from sub-megawatt to higher megawatt capacities. Specifically, the division serves niche markets encompassing rail traction gears, marine gearboxes, and renewable energy sectors such as wind and hydro turbine gearboxes. With a solid reputation, KPCL is a preferred supplier of high-speed gearboxes for steam turbine-driven power generation. The division's stronghold lies in locomotive and self-propelled vehicle transmissions, recognized for their efficiency and reliability. These products play a vital role across critical applications in industrial and defense sectors.

Geographical Presence

Kirloskar Pneumatic Company Limited (KPCL) maintains a strong geographical presence with strategically located manufacturing units and a commitment to cutting-edge infrastructure. This ensures a seamless production and delivery process, even during challenging times. The company's approach to enhancing its manufactured capital involves prudent investments in infrastructure and research and development. Leveraging advanced technology, KPCL emphasizes productivity and durability across its operational processes and product offerings. Notably, digitalized software serves as a pivotal enabler for achieving key performance indicators.

Manufacturing Locations

Nasik: One of KPCL's manufacturing locations, Nasik, plays a pivotal role in the company's production process. Here, the company designs and manufactures its own compressors with in-house manufactured air-ends. This comprehensive approach covers a wide range of screw and reciprocating models.

Hadapsar: Another manufacturing unit of KPCL is located in Hadapsar. The facility's operational focus is aligned with the company's commitment to streamline internal manufacturing processes and reduce lead times. This streamlined approach contributes to enhanced production capabilities, including the manufacture of centrifugal compressors.

Saswad: KPCL's Saswad manufacturing location adds to the company's production prowess. Equipped with state-of-the-art machinery, this facility caters to high-precision quality manufacturing. It further contributes to the company's ability to produce various product types, including screw, reciprocating models, centrifugal products, gear, pinion, and heat treatment, all tailored to match drawing specifications.



Remarkable Export Growth

Kirloskar Pneumatic Company Limited (KPCL) has achieved an exceptional growth in exports, witnessing a substantial increase from 25 crores to an impressive 177 crores, marking a remarkable growth of over 600%. This remarkable growth underscores KPCL's expanding global footprint and product excellence. Leveraging cutting-edge technology, streamlined manufacturing, and a strong customer focus, the company's swift rise in exports showcases its prowess in international markets. KPCL's commitment to quality, efficiency, and prompt service has played a pivotal role in securing customer loyalty. This significant export growth stands as a testament to KPCL's ability to excel on a global scale and solidifies its position as an industry leader.

Key Highlights



In its pursuit of business growth, the company embraced multifaceted strategies. Active participation in industry exhibitions heightened brand recognition, while international paper presentations showcased expertise and innovation. FY23 witnessed 15 intellectual property filings, highlighting commitment to innovation. A digital marketing overhaul, including revised social media policies, enhanced visibility across platforms. Refreshed marketing materials and product launch strategies reinforced marketing efforts. Internal and external merchandising enhancements improved customer experiences and brand identity. Amid Industry 4.0, stringent cybersecurity measures were implemented for interconnected machinery and SaaS-hosted products, ensuring data integrity and ecosystem security.

Industry Analysis

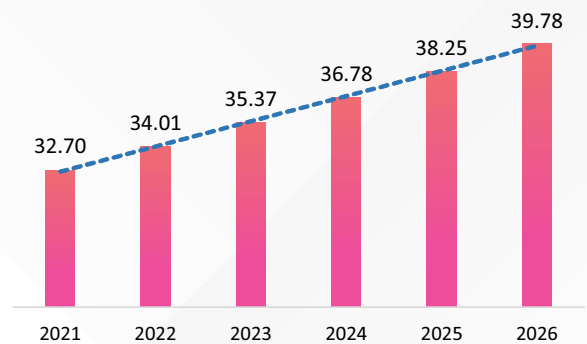
Compression Industry

Within the compression domain, the company commands three primary product lines—air compressors, refrigeration compressors, and comprehensive compression systems, including gas compressors. With a legacy spanning over six decades, the Company has firmly established its position as a frontrunner in the manufacturing sector. These segments are strategically positioned for robust expansion, fueled by robust demand across diverse industrial sectors, both domestically and internationally. The company's esteemed reputation in delivering an innovative array of products tailored to the unique demands of the Indian market underscores its industry leadership. This commitment is bolstered by a consistent drive to elevate product standards through upgrades, ensuring peak quality and reliability. The Company's growth trajectory is further propelled by the evolving global energy landscape, marked by the convergence of environmental concerns and geopolitical factors. This transformative shift has catalyzed heightened demand for the Company's offerings, reaffirming its path of upward growth.

Air Compressor Business

The multifaceted applications of air compressors span a wide range, from overseeing intricate industrial processes to powering pneumatic machinery. Projections underline the global air compressor market's path towards a projected Compound Annual Growth Rate (CAGR) of about 4% between 2021 and 2026, driven by escalating demand for energy-efficient compressors in a thriving industrial landscape. The dynamic Asia-Pacific region positions itself for rapid expansion, propelled by robust demand from pivotal sectors like manufacturing and automotive. The air compressor market asserts its prominence with an estimated valuation of around USD 32 billion. The company's offerings within the air compressor domain encompass three key categories: screw compressors, reciprocating compressors, and centrifugal compressors.

Industry Size CAGR of 4% (in Billion)

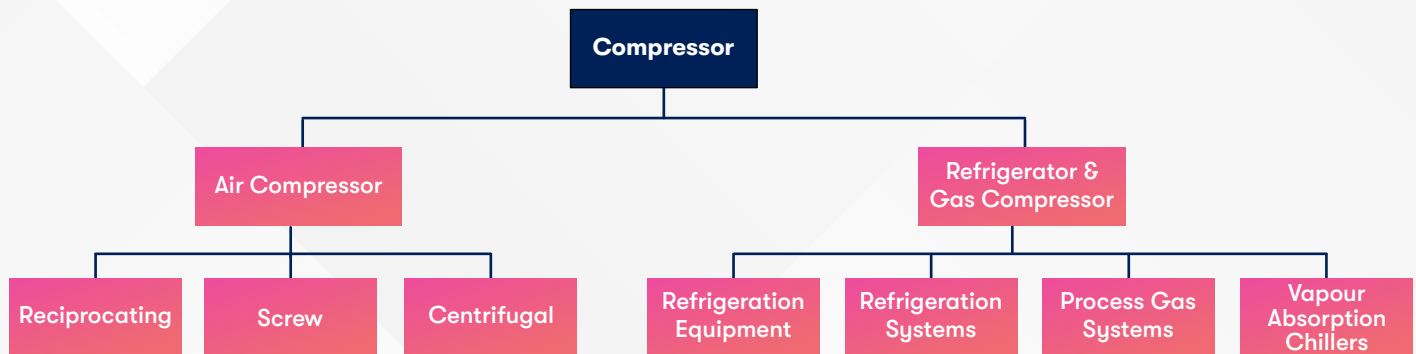


The company's robust standing in reciprocating compressors is evident, with the Air Compressor Systems division showcasing an extensive portfolio spanning 15 distinct product categories. Venturing into screw compressors, the company gains a competitive edge by orchestrating the entire value chain – from design and manufacturing to sales and service – all within India. The company's commitment to expansion is evident through innovative strides like integrating built-in dryers into screw compressors, creating pathways for enhanced market presence. Strategic investments in high-speed gearboxes further enhance its competitive prowess, allowing for cost-effective and superior centrifugal compressors. Spanning a range of 30 to 10,000 CFM, the company's air compressor solutions cater adeptly to a diverse range of operational needs.

Zooming in on market specifics, the company projects the air compressor market size of India to be within the range of INR 4,000 to 5,000 crores – a significant upward revision from their previous stance of 3,300 crores. Notably, screw compressors command a substantial 75% market share within this landscape. Importantly, industry growth should not solely be confined to the Industrial Production Index (IIP), but thoughtfully correlated to GDP and inflation dynamics, recognizing compressors' versatile applications beyond conventional industrial boundaries.

Screw compressors, designed for seamless air delivery, find a strong domestic foothold, emphasized by their dependence on robust distribution networks. Equally significant is the growth potential presented by centrifugal compressors, renowned for their inherent complexity. These compressors are crucial in industries such as steel and textiles, where substantial volumes of dry air are indispensable. The company's core strength lies in its ability to cater to customized end-user requirements, differentiating it from standardized offerings. This strategic pivot seamlessly aligns with evolving market dynamics, enhancing the company's reputation as a bespoke solutions provider.

Exhibit 1: KPCL significantly bridged the portfolio gap in its product mix



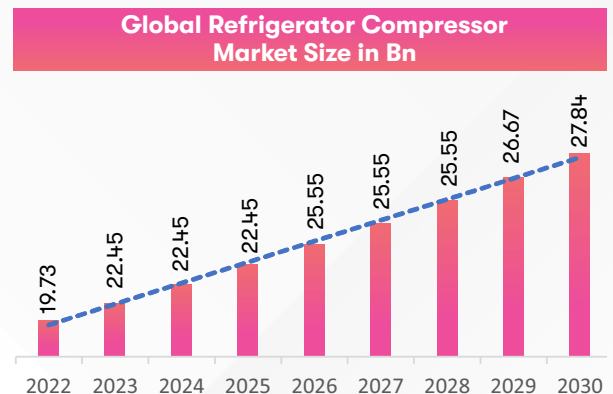
Refrigeration Business

The global industrial refrigeration systems market size was estimated at USD 19.73 billion in 2022, with the global refrigeration compressor market anticipating a Compound Annual Growth Rate (CAGR) of approximately 4.4% between 2022 and 2030. This growth trajectory is primarily fueled by the escalating demand for refrigeration systems across developing nations and the surging interest in energy-efficient and environmentally friendly refrigeration compressors. Notably, the Asia-Pacific region is anticipated to emerge as the largest and fastest-growing market due to the heightened demand for refrigeration solutions within the food and beverage industry.

Within the realm of Hydrocarbon refrigeration, the landscape is characterized by players with a 'Proven Track Record' (PTR) in the market, and your company takes a prominent stance in this segment. With a robust PTR in handling Hydrocarbons, the company has established dominance in the Hydrocarbon refrigeration market. Operating with a versatile range of refrigerants including propane, propylene, Butane, and other hydrocarbon mixtures, these refrigeration systems underline the company's expertise. The company effectively leverages its 'Concept to Commissioning' methodology, positioning itself ahead of the curve in the industry's ever-stringent environmental, quality, and safety regulations. As the refrigeration industry continues to expand, it is expected to progressively supplant alternative options, gaining favor across diverse market segments. An impressive market share of approximately 60% in the field of ammonia refrigeration compressors speaks to the company's prowess. A significant stride in advancing new product development is marked by investments in an in-house performance testing facility dedicated to refrigeration compressors.

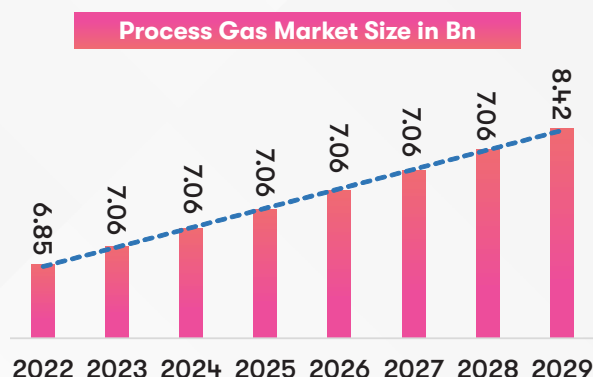
The company's recent accomplishments include the supply of three substantial packages of Screw Compressors utilizing hydrocarbon refrigerants for the Oil and Gas Industry. Continuous growth in after-market sales has been observed. Furthermore, the domestic refrigeration market registers an overall value of INR 800 crores, with a balanced distribution of 50:50 between projects and products for KPCL. Significantly, the company holds a dominant stance in bare shaft compressors for cold storage and enjoys a leadership position with minimal competition in the ammonia reciprocating compressors arena. KPCL's product offerings include base compressors for Original Equipment Manufacturers (OEMs) who install chilling plants for customers with additional modifications. Although this market is growing gradually, given the substantial installed base generating demand for spares, KPCL's strategic position remains steadfast.

An important milestone is the introduction of the Khione screw compressor into the refrigeration market, addressing a market size of INR 150 crores. Meeting this demand involves imported compressors (Japanese), targeting end-users in the pharmaceutical and dairy sectors. KPCL's claim to substitute imports through Khione compressors and offer a 25% cost benefit to customers aligns with its growth strategy. Notably, a healthy influx of inquiries is expected to manifest into tangible numbers over the next 1-2 quarters. In terms of project orders, KPCL emerges as a key supplier of refrigeration systems to sectors encompassing oil and gas, chemicals, fertilizers, and pharmaceuticals. The company's comprehensive engineering package, of which the compressor plays a pivotal role, reinforces its commitment to delivering holistic solutions. This narrative collectively highlights KPCL's significant presence and strategic positioning within the refrigeration industry.



Process Gas Business

The utilization of process gas compressors spans various sectors, including oil and gas, chemical, and petrochemical industries. These compressors play a crucial role in compressing gases like hydrogen, natural gases, nitrogen, and carbon dioxide for industrial applications. The global process gas compressor market is predicted to witness a 3% compound annual growth rate (CAGR) from 2022 to 2029, reaching an estimated value of USD 8.42 billion by 2029. This growth is attributed to increased natural gas consumption and the expanding petrochemical sector. The Asia-Pacific region is anticipated to lead this market expansion due to escalating natural gas demand in developing nations and the thriving chemical and petrochemical industries.



The gas compressor market is valued at around USD 4.7 billion, while gas compression systems comprise an approximately USD 24 billion market. This industry operates as a global enterprise, capable of producing and selling plants and packages worldwide. The industry's success is linked to a "Proven Track Record" (PTR) and is supported by trends such as energy basket gasification and environmental initiatives. The Company's strong design and engineering capabilities enable it to capture this market, particularly in the Indian oil and gas sector. In the past year, the Company grew sales by supplying and installing three large packages in the Middle East. However, the CNG business experienced slower growth compared to the previous year. To address this, the Company introduced the Calana range of booster compressors, and continuous growth in the O&M business contributed to the Company's ongoing progress. The Compression Segment is the primary revenue contributor, accounting for 93% of the total revenue and serving as the sole reportable segment.

The gas offerings are primarily divided into CNG and oil and gas projects, maintaining a roughly 50:50 mix. Among CNG stations, they are categorized as mother stations, connected to pipelines, and daughter stations, which receive gas separately. The mother stations segment features only two major players, including KPCL, while various local players operate in the daughter stations category. To enhance competitiveness against local players, KPCL launched booster compressors for daughter stations. The CNG demand, after accounting for some slack, is estimated at around 350 stations annually for KPCL. Each package costs INR 40–50 lakh. Based on bidding rounds for different regions, there is a potential demand for 8,000 compressors over the next eight years.

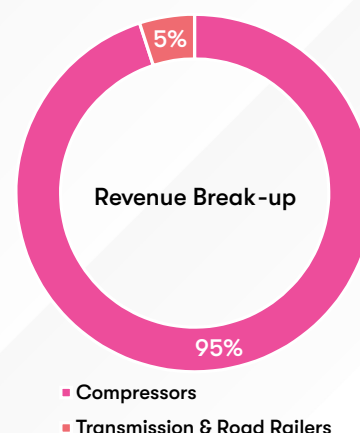
CNG tenders typically involve a base compressor and a five-year O&M agreement. Local players might offer lower bids for booster stations but lack the O&M credibility that KPCL provides. Over the long term, these stations will likely require replacements every eight years. Furthermore, KPCL's research efforts extend to other gasification areas, including hydrogen and biogas, diversifying its growth potential.

Transmission & Road Railers

KPCL's Transmission Division holds the distinction of being India's pioneer in manufacturing railway transmission products. This specialized division excels in crafting tailor-made power transmission systems. With a comprehensive portfolio of gear and gearbox types, capable of handling capacities ranging from under one megawatt to fifty megawatts, the Transmission Division enjoys a competitive advantage.

In terms of transmission gears, KPCL is strategically shifting its production focus towards meeting captive requirements, with the anticipation of mitigating losses of INR 10–12 crore by the upcoming year.

Regarding road railers, although they possess a proven use case, achieving significant scalability will require time and potential collaboration with a logistics partner in the future.



Market Size

Kirloskar Pneumatic's entry into the screw air compressors domain has significantly broadened the company's potential market reach in recent years. The company's management has reevaluated its perspective on the market size for air compressors. While the earlier estimation stood at INR 3,300 crores, this assessment underwent revision during a meeting held in FY22. Management now envisions a potential market size that is poised for growth, primarily attributed to a robust demand landscape. The projected range for the market size of air compressors is anticipated to span between INR 4,000 to 5,000 crores. This strategic shift underscores the company's agility in responding to the evolving market environment and its calculated approach to seize emerging opportunities.

FY22 Market Size as per June presentation – air compressor market potentially expanding to INR 4,000-5,000 Cr.

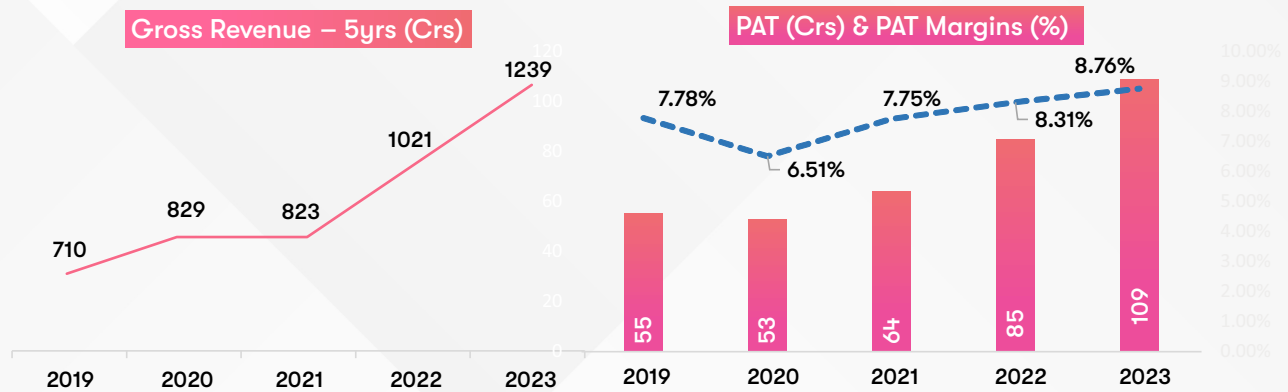
	Air Compressor	Refrigeration	Gas	Total Market
Market Size	Rs 3,300 Cr.	Rs 700 Cr.	Rs 1,300 Cr.	Rs 5,300 Cr.
Addressable Market	Rs 2,900 Cr.	Rs 600 Cr.	Rs 1,000 Cr.	Rs 4,500 Cr.

	Air Compressor	Refrigeration	Gas	Total Market
Addressable Market	Rs 2,900 Cr.	Rs 600 Cr.	Rs 1,000 Cr.	Rs 4,500 Cr.
Share in KKPC Sales	20% - 25%	30% - 35%	40% - 45%	95% - 97%
Market Share	8%	55%	40%	20%

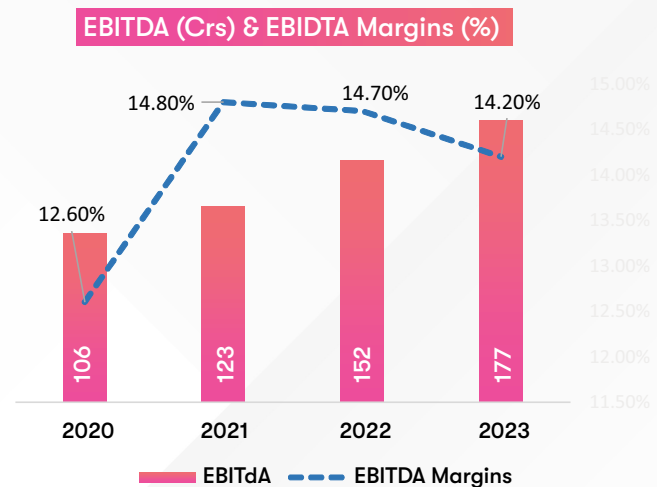
The management of KPCL emphasized that the company's role transcends that of a mere compressor manufacturer; it also plays a pivotal role in supplying comprehensive compression systems. Unlike individual compressors, which account for only one-third of the cost, a complete compressor system is valued at approximately INR 30 lakh.

As for the existing sales distribution, the breakdown is as follows: air compressors contribute to 25% of sales, refrigeration systems account for 30%, and the remaining 45% is attributed to gas compressors. This diversified sales mix underscores the company's multifaceted capabilities and its presence across various segments of the compression industry.

Company Performance



21% Revenue Y-O-Y	16.44% EBITDA Y-O-Y
28.23% PAT Y-O-Y	608% Export Growth Y-O-Y
Rs 1350 Cr₹ Order Book	13.65% Return on Equity
17.57% Return on Capital Employed	9.61% Return on Asset



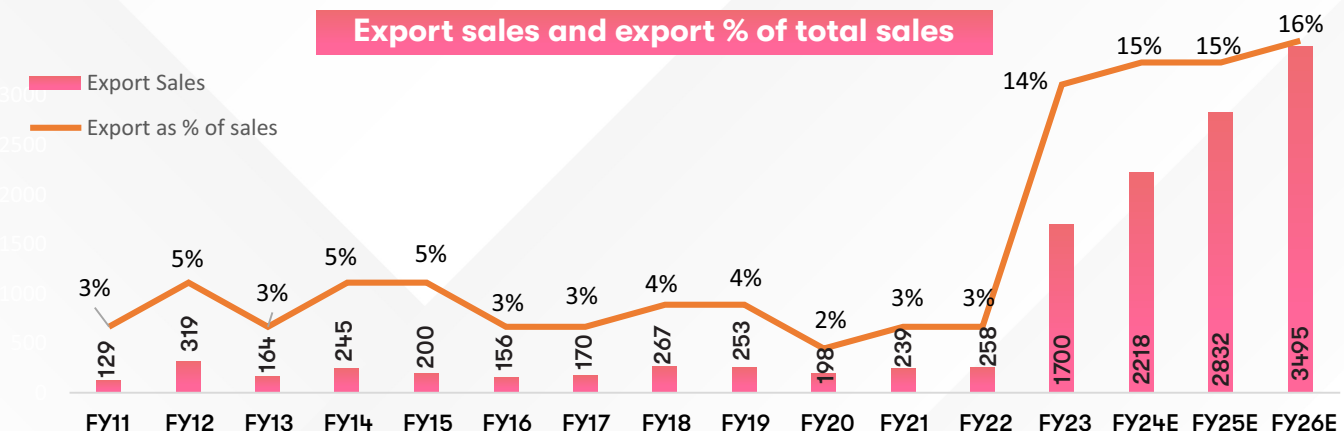
Comprehensive Investment Rationale

Strategic Export Surge Fuels Kirloskar Pneumatic's Growth

Kirloskar Pneumatic is strategically poised to achieve a bold and ambitious long-term goal of capturing 25% of the total sales market share. This strategic objective is firmly underpinned by a significant surge in export sales, which has been witnessed since the fiscal year 2023. This impressive growth can be attributed to the successful execution of substantial compression projects in the MENA (Middle East and North Africa) region. This strategic entry into the MENA market, while requiring some margin concessions, has garnered noteworthy positive feedback for the quality and timeliness of project deliveries. An especially noteworthy achievement for Kirloskar Pneumatic is the successful execution of a project valued at over Rs1,000 million in the MENA region. This accomplishment serves to bolster the company's confidence in handling large-scale ventures within the highly competitive export market, an arena largely dominated by multinational corporations (MNCs). Furthermore, the company has received promising enquiries amounting to Rs7,000-8,000 million from the Oil and Gas sector in the MENA region, encompassing both gas and refrigeration domains, with favorable conversion rates. While the year-end order book for FY23 stands at approximately Rs500 million, Kirloskar Pneumatic is steadfast in its commitment to maintaining margins, aiming for a consistent margin range of 18-20% specifically from the exports market.

A pivotal driver of expansion for the company is its successful diversification efforts within the MENA region, particularly in the gas compressors domain. This strategic move aligns harmoniously with the company's foray into the ASEAN (Association of Southeast Asian Nations) region. Notably, the company's export portfolio primarily comprises substantial gas compressor packages, catering to various segments of the Oil and Gas industry. The global gas compressor system sector, estimated at a staggering \$24 billion, unveils an expansive opportunity landscape. Remarkably, within this sector, the Oil and Gas segment accounts for around 25%, equating to a substantial \$6 billion. In a demonstration of proactive readiness, Kirloskar Pneumatic has appointed a seasoned executive to spearhead sales operations in the ASEAN region, affirming its commitment to strategic growth and market penetration.

Kirloskar Pneumatic point to an impressive potential in the realm of exports. Expectations are set for a robust 27% Compound Annual Growth Rate (CAGR), driving exports to double from Rs3.5 billion in FY23 to Rs7 billion by FY26E. Concurrently, the company's export share in the overall revenue composition is projected to rise from approximately 14% to about 16%. This growth trajectory is fortified by robust inquiries stemming from the MENA region, coupled with the company's expanding presence in South-East Asia. Additionally, substantial capital expenditure announcements by global oil and gas corporations further contribute to this optimistic outlook. A defining attribute of Kirloskar Pneumatic is its proficiency in engineering comprehensive packages efficiently and expediently. A testament to this prowess is the successful delivery of a substantial project within an expedited timeframe of three months, a remarkable achievement considering the typical duration of 5-6 months. Notably, this accomplishment was achieved in a remote MENA location.



Comprehensive Investment Rationale

With its sights set on expansion, Kirloskar Pneumatic is resolute in expanding its geographical footprint, targeting key regions including the Middle East, South-East Asia, Indo China, and South and West Africa. A strategic initiative in this direction involves supplying components of the compressor value chain to Europe and the USA, a niche segment that underscores the company's diversification strategy. Particularly noteworthy is the company's engagement with LNG (Liquefied Natural Gas) players, who are striving to ramp up operations in response to the escalating demand for natural gas in Europe, propelled by ongoing conflicts.

Unique Opportunity in India's Rail Logistics Expansion

Kirloskar Pneumatic stands out as the sole manufacturer of roadrailleurs in India, a distinctive product that operates at the intersection of road and rail logistics. This unique offering has immense growth potential, especially as the Ministry of Railways is embarking on a significant procurement plan to enhance the share of Indian Railways' freight traffic. With plans to acquire an additional 60,000 wagons at a cost of approximately Rs 25,000 crore, a vast opportunity unfolds for companies like Kirloskar Pneumatic.

The company's roadrailleurs are a proven product, seamlessly navigating the Chennai to Delhi route, serving as a reliable link between factories and warehouses. As the direct freight corridor across west and east India opens up, new routes become accessible, promising further expansion for this business segment. Kirloskar Pneumatic's collaboration with Indian Railways in both manufacturing and operation of these unique trains positions it as a key player in this niche market.

Having already constructed over 100 roadrailer units and 20-50 rail bogie adapters, the company is well-prepared to cater to the growing demand in this sector. Considering that there are over 3 lakh wagons in India, with an annual production of 30,000-40,000 wagons, even a modest shift of 10% of the wagon demand to roadrailleurs presents a substantial opportunity of Rs 60-80 billion per year. This underscores the massive untapped market potential that Kirloskar Pneumatic can harness.

Moreover, the collaboration with Indian Railways and the renewed interest from players and container operators gaining permission from Indian Railways further solidify the prospects of this business. With the opening of new freight corridors and the evolving logistics landscape in India, Kirloskar Pneumatic is well-positioned to capitalize on this growing trend and establish itself as a dominant player in the roadrailer segment.

Kirloskar Pneumatic's status as the sole manufacturer of roadrailleurs in India, coupled with the expanding procurement plans of the Ministry of Railways, presents a compelling investment opportunity. With a proven product, established collaborations, and a substantial untapped market, the company is poised for significant growth in the coming years. This unique positioning positions Kirloskar Pneumatic as an attractive prospect for investors seeking exposure to India's evolving logistics and transportation sector.



RoadRailer – A wagon with tyres and wheels for rail tracks

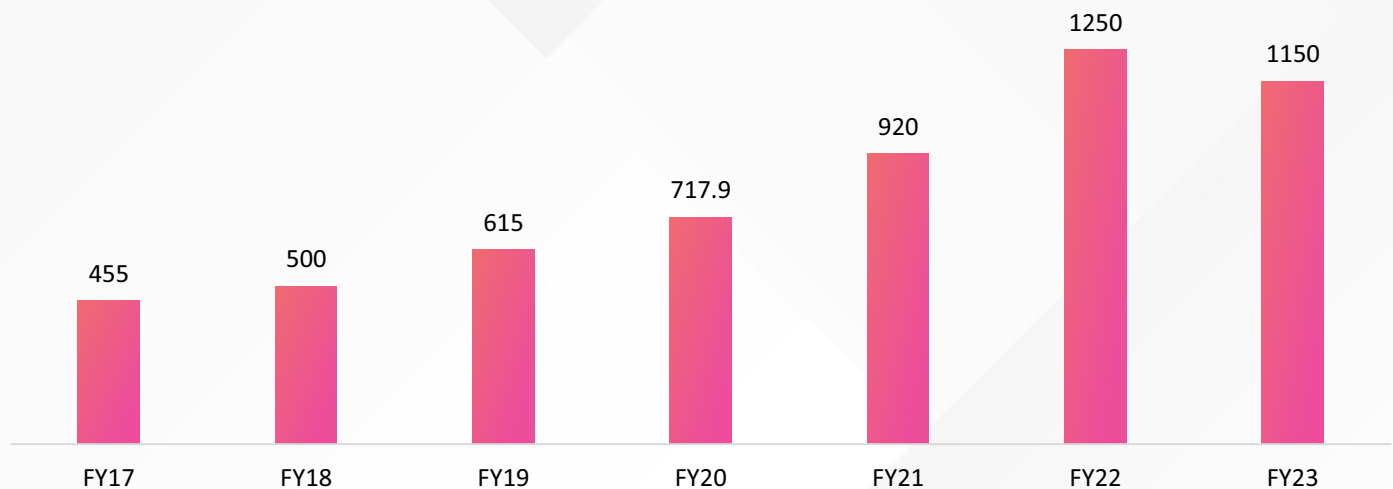
RoadRailer – A wagon with tyres and wheels for rail tracks



Comprehensive Investment Rationale

Impressive Order Book and Growth Trajectory: KKPC's order book has emerged as a cornerstone of its growth strategy, surpassing an impressive Rs. 1,350 Crores in Q1 2024. This substantial order backlog reflects the company's resilience and proactive approach to securing new business. Importantly, this order book has undergone remarkable growth over the past five years, effectively doubling from approximately Rs. 5 billion to around Rs. 11.5 billion. Despite a temporary dip observed in the FY23 order book, KKPC has already clinched an additional Rs. 2 billion order in April. This positions the company notably ahead, with Rs. 1 billion more than the previous fiscal year on a 13-month basis. Furthermore, KKPC has successfully garnered significant inquiries, ranging from Rs. 7-9 billion, primarily from the MENA region's Oil and Gas sector. These inquiries, coupled with a promising conversion rate, underpin our confidence in the company's export order book's substantial growth potential. KKPC's commitment to operational efficiency is further underscored by its concerted efforts to reduce delivery times. This efficiency enhancement translates into the company's ability to comfortably deliver 1.2-1.3 times the book-to-bill ratio, contributing to sustained growth.

Order book has doubled over the past 5 years (Rs Crs)



Government-Led Capital Expenditure Surge: KKPC is poised to reap the benefits of the notable capital expenditure (capex) cycle initiated by the Government of India. The government's consistent escalation of capital investments over three consecutive years has culminated in a significant milestone, with a budget reaching Rs. 10 trillion in FY2023-24. This surge in government spending is particularly concentrated in core sectors encompassing cement, metals, oil refining, power, and transportation. The subsequent positive ripple effects across private sector companies are amplified by the implementation of Production-Linked Incentive (PLI) schemes. In this context, KKPC, operating within the construction equipment industry, is strategically positioned to capitalize on the forthcoming medium-term surge in demand. This heightened demand stems from augmented government infrastructure investments, the emergence of higher-priced orders, and the revival of private capex. KKPC's readiness to harness these trends positions it as a key player in the growth narrative of the sector.

Diverse End-User Industries and Growth Potential: KKPC's impressive growth prospects are further underscored by its diverse client base, which spans various industries. The company serves as a trusted supplier to end-user industries including Oil & Gas, Pharma, Chemicals, Food & Beverages, Steel, and Textiles, among others. This diversification not only fortifies KKPC's financial stability but also positions it to directly benefit from the ongoing public and private capex cycle. A forecasted revenue growth of 22% Compound Annual Growth Rate (CAGR) spanning FY23-26E serves as a testament to the immense growth potential residing within KKPC's broad client portfolio. Furthermore, KKPC's capacity utilization stands strong at an impressive 74.3%, surpassing the industry's average of 71.5%. This augments its potential to capitalize on a robust industry environment, with ample room for capacity expansion.

Comprehensive Investment Rationale

Global Expansion and Green Energy Initiatives: Kirloskar Pneumatic Company Limited (KPCL) strategically positions itself for robust growth by venturing into the global rotary screw air compressor market. While rotary screw compressors constitute over 70% of the global air compressor market, they are predominantly localized, necessitating OEMs to establish local manufacturing and service facilities. Despite its late entry, KPCL is strengthening its presence in the MENA region in FY23 and is planning further expansion into the ASEAN region with its gas and refrigeration compression systems. This strategic step is set to substantially expand the company's target addressable market (TAM) from a \$0.5 billion domestic opportunity to an impressive \$22.50 billion globally.

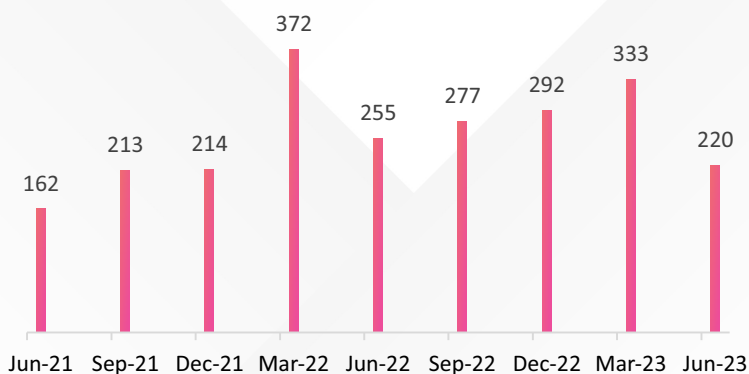
KPCL is also well-positioned to leverage the green hydrogen infrastructure initiative. The company is in the process of developing indigenous hydrogen compressors, offering uniqueness and cost-effectiveness to cater to both domestic and export markets. The Indian government's National Hydrogen Mission aims to transform the country into a production and export hub for green hydrogen, with substantial investments earmarked for this endeavor. On a global scale, numerous countries have unveiled hydrogen roadmaps and committed substantial funding to hydrogen technologies, presenting a promising landscape for KPCL's participation in this sector.

Furthermore, KPCL is gearing up for the biogas infrastructure drive under the SATAT scheme, which envisions the installation of 5000 biogas stations in the next 5 years. Despite facing challenges, this initiative presents a significant opportunity, estimated at over Rs. 20–30 billion for KPCL, considering the limited installations accomplished thus far. Sharing properties with CNG, Biogas can effectively replace it in various applications, making it a valuable resource in the renewable automotive fuel sector. KPCL is strategically poised to contribute to this transformative shift in the energy landscape.

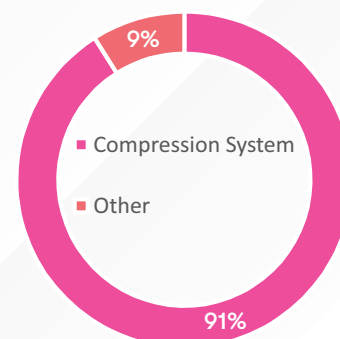
Quarterly Result Update (Q1FY24): Kirloskar Pneumatic Company Ltd., a prominent player in the Air, Refrigeration, and Gas Compression business in India, has reported its financial results for Q1 of the financial year FY24. Despite facing challenges such as lower sales due to the absence of export packages compared to the previous year and muted clearance for the installation of CNG packages, the company has showcased resilience and growth potential. Notably, the order bookings in Q1 were satisfactory, resulting in an order backlog of approximately Rs. 1,350 crores as of June 30, 2023, which positions the company for a sales growth trajectory in the coming quarters.

Profit after tax (PAT) for Q1 FY24 stood at Rs. 17.93 crores, marking a notable 10% increase compared to the corresponding quarter of the previous year, despite the lower sales figures. This impressive performance can be attributed to the company's commitment to launching new product lines and adhering to its capital expenditure plans. The compression business remains the dominant contributor to Kirloskar Pneumatic's revenue, accounting for over 90% of the company's total income.

Sales of Compression System (Rs Crores)



Quarterly Sale's Product Break-up

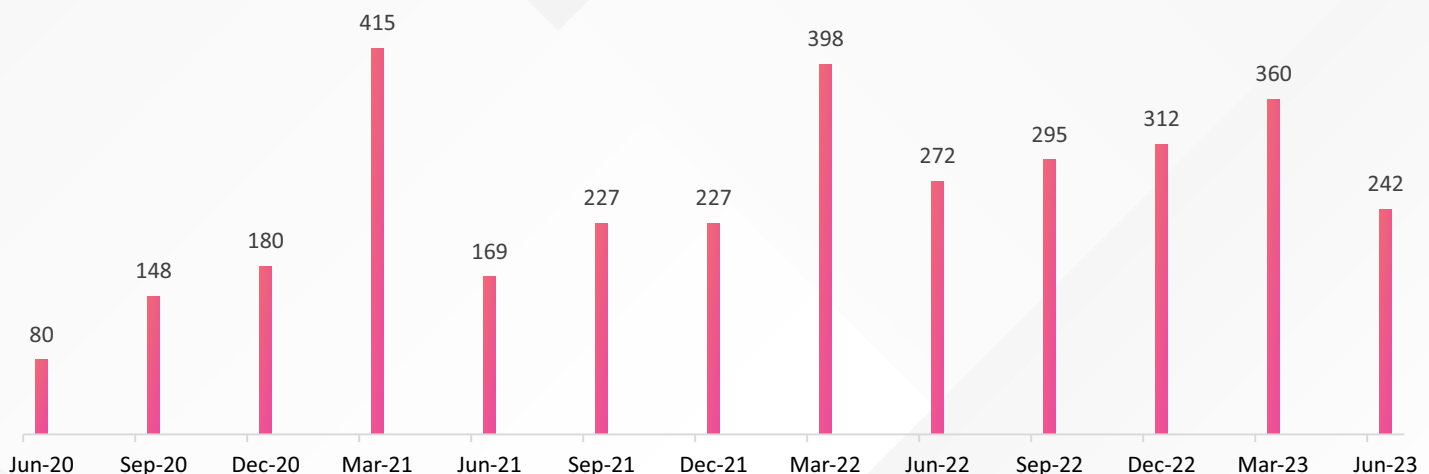


Comprehensive Investment Rationale

Quarterly Result Update (Q1FY24): In terms of financial performance, Q1 FY24 witnessed a decline in revenue from operations, amounting to INR 242 crores, representing a degrowth of approximately 10% compared to Q1 FY23. However, the company improved its EBITDA margin, reaching 13% of total income, up from 10.9% in Q1 FY 23. Furthermore, the profit before tax (PBT) for the quarter amounted to INR 23.50 crores, constituting 9.5% of total income, an 8% growth compared to Q1 FY23. The growth momentum continued in the Profit After Tax (PAT) category, where Kirloskar Pneumatic achieved a 10% increase, with PAT standing at INR 17.93 crores, accounting for 7.2% of the total income.

The company's strong financial performance, improved EBITDA margins, and healthy order backlog position it favorably for future growth and value creation. With the successful execution of its expansion plans and a commitment to innovation, Kirloskar Pneumatic appears poised to navigate the evolving business landscape effectively in FY24 and beyond, offering investors a potentially rewarding opportunity.

Quarterly Performance of KKPC (Rs Crores)



Outlook: Kirloskar Pneumatic Company Limited (KPCL) is poised for a promising future, backed by several strategic moves and a robust order book. The company's foray into the global rotary screw air compressor market, which constitutes over 70% of the global air compressor market, presents a substantial growth opportunity. With a strong presence in the MENA region and plans to expand into the ASEAN region, KPCL is strategically positioning itself to capture a significant share of this lucrative market. This expansion is expected to boost its target addressable market (TAM) from \$0.5 billion domestically to a staggering \$22.50 billion globally.

KPCL is also well-positioned to benefit from the green hydrogen infrastructure push, both domestically and globally. The Indian government's National Hydrogen Mission and similar initiatives worldwide are driving investments in green hydrogen technologies, aligning perfectly with KPCL's development of indigenous hydrogen compressors. Furthermore, the untapped market of road railers offers another avenue for growth. KPCL's remarkable order book growth, coupled with its increasing focus on exports, signifies a positive trajectory. However, it's essential to remain cautious, as challenges like supply chain disruptions and market competition persist. KKPC's outlook remains neutral. Vigilant risk management will be essential in navigating the evolving energy landscape and capitalizing on growth opportunities.

Strengths

Market Leadership: Kirloskar Pneumatic holds a dominant position in the CNG compressor gas segment with over 50% market share. This leadership status reflects its strong reputation and expertise in this niche market.

Diverse Product Portfolio: The company has successfully diversified its product range by entering the booster compressors market. This strategic move has expanded its revenue streams, enabling it to tap into a substantial market opportunity.

Cost Reduction Initiatives: Kirloskar Pneumatic is committed to improving margins through in-house capabilities for fabrication and forging. This approach enhances operational efficiency, reduces costs, and contributes to improved profitability.

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Weaknesses

Dependence on Specific Segments: While the company has a strong presence in the CNG compressor gas segment, it may be vulnerable to market fluctuations in this sector. Overreliance on specific segments can pose risks if market conditions change unfavorably.

Volatility in Microfinance Business: The company's involvement in the microfinance sector presents potential asset quality challenges due to the inherent volatility of this business. Managing risks in this unseasoned book is crucial.

Supply Chain Disruptions: Like many businesses, Kirloskar Pneumatic faces challenges related to supply chain disruptions. These disruptions can impact production and delivery timelines, affecting overall operations.

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Opportunities

Clean Energy Demand: With increasing environmental consciousness and a drive for cleaner energy solutions, the demand for CNG is expected to rise. Kirloskar Pneumatic is well-positioned to capitalize on this trend by providing CNG compressors and boosters.

Infrastructure Expansion: Plans to install thousands of compressor stations and CNG stations over the next decade present a significant growth opportunity. The company's expertise aligns with these infrastructure expansion initiatives.

Export Growth: Exploring export opportunities for its products can diversify revenue sources and reduce dependency on the domestic market. Expanding its global footprint can be a lucrative avenue for growth.

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Threats

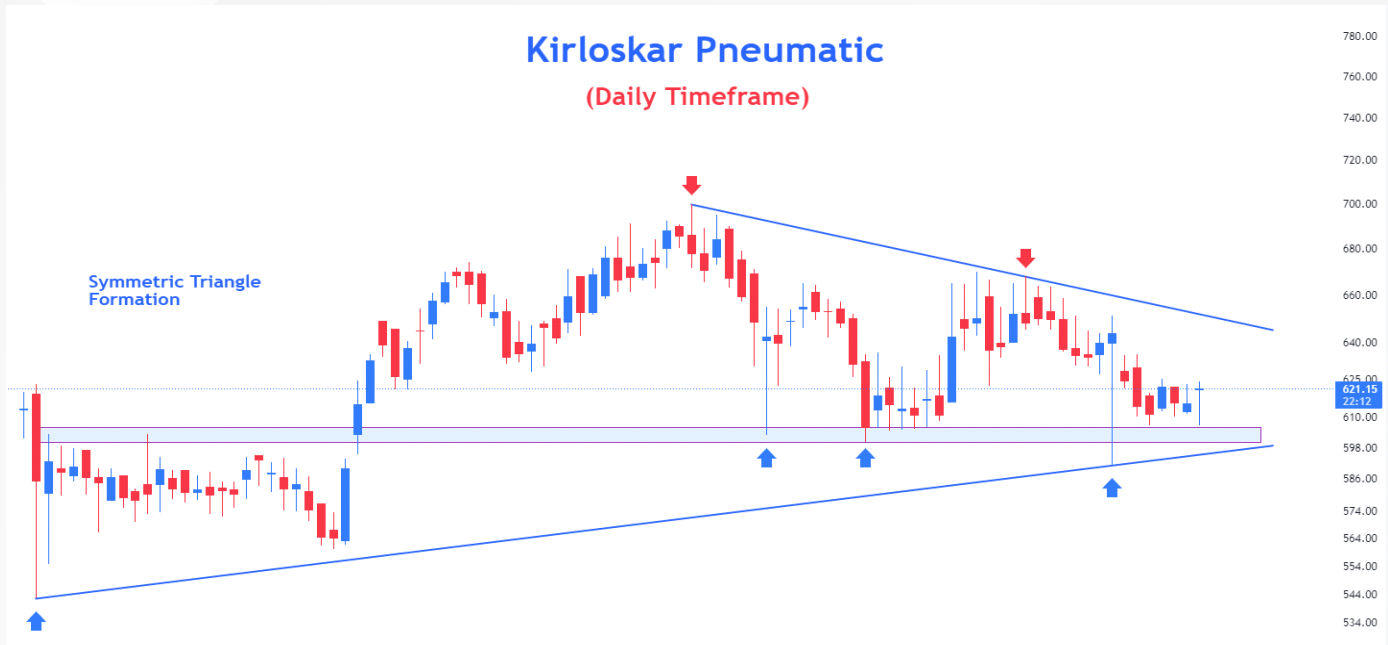
Supply Chain Vulnerability: Kirloskar Pneumatic faces supply chain risks from geopolitical tensions, natural disasters, or pandemics. Disruptions can hamper production and revenue, necessitating strong contingency plans.

Economic Fluctuations: Economic downturns or recessions can impact the company's growth prospects, as customers may delay or reduce their investments in infrastructure projects.

Regulatory Changes: Changes in government policies or regulations, especially related to the energy sector, can affect the demand for CNG and associated infrastructure, potentially impacting Kirloskar Pneumatic's business.

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Technical Outlook



Kirloskar Pneumatic appears to be in a consolidation phase, consistently finding support at IPO price levels. A potential breakout from this consolidation could lead to a significant upward movement. Additionally, the company's financials have been on an improving trend year-over-year, reflecting positive fundamentals. The weekly Relative Strength Index (RSI) is above 50, indicating strength in the current price. These technical factors suggest a favorable outlook for Kirloskar Pneumatic.

The weekly delivery volume at 50% suggests short-term trading activity, while the 1-month delivery volume at 59.62% indicates stronger investor commitment and confidence in the stock's long-term prospects.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	615.10	617.80
10	624.60	623.00
20	634.60	628.90
50	644.40	633.40
100	625.70	624.60
200	600.0	598.30

Pivot Levels : FIBONACCI			Relative Strength Index(RSI)	Daily	Weekly
R1 621.11	Pivot 616.48	S1 611.86			
R2 623.96		S2 609.01			
R3 628.58		S3 604.38			

Peer Comparison

	Kirloskar Pneumatic	Ingersoll - Rand	Elgi Equipments
CMP (Rs) (11-09-2023)	620	3142	488
Revenue (Rs in cr)	528.22	1170.07	3107.91
EBIDTA (Rs in cr)	68.83	265.04	499.99
PAT (Rs in cr)	34.46	182.64	368.33
EBIDTA Margin %	13.03%	22.65%	16.08%
PAT Margin %	6.52%	15.60%	11.85%
ROCE %	11.01%	42.66%	28.52%
ROE %	14.6%	32.3%	27.04%
Debt To Equity (x)	0.00	0.00	0.37
EPS (Rs)	28.65	57.86	11.72
Diluted EPS (Rs)	28.65	57.86	11.71
P/E(x)	36.4	48.5	40.4
P/B (x)	5.05	17.2	11.3
P/S (x)	3.32	8.38	5.03
Enterprise value (Rs in cr)	836.0	7969.39	13869.85
EV/EBIDTA (x)	12.15	30.07	27.74
Market cap (Rs in cr)	4036	10063	15636
Current ratio (x)	2.15	2.61	1.79
Book Value (Rs)	123	183	43.30
Dividend Yield %	0.88%	0.85	0.41%
Interest Coverage (X)	2267.8	110.10	25.29
Asset T/O (x)	99.75	1.34	0.99%
RoA%	7.21%	21.25%	14.82%

Financial Snapshot

Particulars (Consolidated)	FY 23	FY 22	FY 21	FY 20	FY 19
Financial Position (In Cr)					
Equity Share Capital	12.93	12.89	12.85	12.84	12.84
Reserve & Surplus	782.25	745.57	575.79	481.78	480.99
Fixed Assets	247.16	240.26	182.94	215.87	185.90
Current Assets	735.05	702.76	676.46	523.59	499.21
Cash and Cash Equivalents	39.44	38.80	52.36	30.0	31.92
Current Liabilities	313.73	353.60	288.73	274.58	248.88
Non Current Liabilities	20.63	12.57	47.01	5.98	5.42
Enterprise Value	3581.73	2591.20	1636.43	604.34	1285.12
Operating Results (In Cr)					
Total Income	1250.52	1015.18	814.78	821.13	710.24
Total Expenditure	1107.25	919.37	749.50	767.68	644.52
Earnings Before Interest & Tax (EBIT)	143.36	116.23	85.57	73.13	80.38
Tax	34.70	29.20	20.04	18.42	24.97
Profit/(loss) after tax (PAT)	108.58	84.92	63.84	53.49	55.26
Ratios					
EBDITA margin (%)	14.27%	14.83%	14.96%	12.87%	14.39%
Net profit margin (%)	8.76%	8.31%	7.75%	6.51%	7.78%
Return on net worth (%)	13.65%	12.89%	10.84%	10.81%	11.19%
Return on capital employed (%)	17.57%	17.32%	13.46%	14.60%	16.09%
Return on asset (%)	9.61%	8.28%	6.90%	6.90%	7.38%
Debt To Equity Ratio	0.00	0.00	0.06	0.06	0.00
EPS	16.82	13.19	9.94	8.33	8.60
Earning Yield	0.03	0.03	0.04	0.09	0.04
Cash Flows (in Cr)					
Operating Activities	39.79	109.08	56.65	9.07	52.59
Investing Activities	-11.18	-45.76	-48.85	-6.25	-56.05
Financing Activities	-28.40	-72.22	9.81	-5.24	-26.27
Net Cash Flows	0.18	-8.90	17.62	-2.42	-29.72

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