Operator: Ladies and gentlemen, good day and welcome to the KRN Heat Exchanger And Refrigeration Ltd. earnings conference call hosted by Dolat Capital. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this call is being recorded. I now hand the conference over to Ms. Hiral Parekh from Dolat Capital. Thank you and over to you.

Hiral Parekh – Dolat Capital: Thank you, Ria. Good afternoon, ladies and gentlemen. On behalf of Dolat Capital, I am pleased to invite all of you to the Q2 FY27 earnings conference call with the management of KRN Heat Exchanger And Refrigeration Ltd. The management is represented by Mr. Santosh Kumar Yadav, the Chairman and MD, Mr. Pawan Naval, the CFO, and Ms. Komal, the Whole-Time Director of KRN HVAC Private Limited. With that, I will hand over the call to Komal ma'am for the opening remarks. Over to you, Komal.

Komal – Whole-Time Director: Hello? Am I audible?

Operator: Yes, ma'am. Please go ahead.

Komal – Whole-Time Director: Thank you. Good afternoon, everyone, and thank you for joining us. On behalf of the management team, I would like to welcome all our investors, analysts, and partners to KRN's earnings call for the second quarter and first half of FY27.

The first half of FY25 has been a strong period for KRN. Growth during the first half has been broad-based, coming from new customers, a wider product range, the ramp-up of our new facility, and a larger share of business from overseas markets.

Our core heat exchanger business continues to grow, while the newer businesses are steadily adding to it. A larger part of this has come from our new facility at Neemrana. The initial months after commissioning went into approvals, customer audits, and setting up systems, which is natural for a plant of this size. Over the last few quarters, more customers have been qualified, more products are being manufactured there, and the facility is contributing more meaningfully each quarter. Utilization at the facility still has room to improve, which leaves good scope for future growth from the existing capacity.

Exports have been one of the most encouraging parts of the half. Our exports business nearly tripled during the half and now forms a much larger part of our revenue. The United States has become our largest export market, followed by Canada, France, the United Kingdom, and Italy. We have also served customers in markets such as the UAE, Vietnam, Sri Lanka, Brazil, and Nepal. Customers in North America and Europe are giving us more business, including new customers in the data center space. The growing acceptance of KRN's products in these markets is a good sign of the trust customers place in our quality and execution.

Data centers in particular have become an important part of our business. Cooling requirements in this segment are rising, and customers are planning and placing orders well in advance. We are also keeping pace with how the technology is moving, including liquid cooling, and have started working

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on products for this space as well.

In bus air conditioning, which we entered last year, progress has been steady. We have started supplies to an OEM, added several bodybuilders as our customers, and are engaging with other OEMs so we can add them as well. Although, as you know, approvals in this segment take some time, having the heat exchangers, tubing, and FRP in-house gives us a good base to grow this business.

As volumes have grown, we have kept a close watch on costs and working capital. Raw material cost movements are largely passed through to customers, and we have continued to add to our team across businesses to prepare for the next phase. Some of these investments add to costs in the near term, but we believe they are necessary to support growth of this scale.

Now coming to our financial performance. On a consolidated basis, revenue from operations for Q2 FY25 stood at rupees 91.14 crore, a growth of 43.37% year-on-year from 63.57 crore in Q2 FY24. EBITDA grew 44.59% to 19.14 crore with an EBITDA margin of 21.00%. Net profit grew 42.81% to 12.31 crore, up from 8.62 crore year-on-year, with a net profit margin of 13.51%.

For H1 FY25, consolidated revenue from operations was 186.29 crore, up by 49.33% year-on-year from 124.74 crore in H1 FY24. EBITDA grew 47.96% to 37.91 crore with an EBITDA margin of 20.35%. Net profit grew 44.82% to 24.31 crore, and net profit margin was 13.05%.

Exports were a key contributor during the half. Exports revenue rose 192% year-on-year to 125.8 crore and now accounts for 67.5% of total revenue, compared with 34.6% in H1 FY24. The United States was our largest export market, contributing 43.7% of exports revenue, and our top five markets together accounted for about 85% of exports.

To sum up, the first half has seen strong growth with contributions from across the business. Demand for HVAC and refrigeration solutions remains healthy across data centers, infrastructure, mobility, and industrial cooling. As we move into the second half, our focus will be on deepening customer relationships, building utilization at Neemrana, and developing products for newer applications.

Before I close, I would like to thank our employees, customers, and our partners for their continued support, and all of you for your trust in KRN. With that, we would be happy to take your questions.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We will take our first question from the line of Mohit Chugh from ShubhLabh Research. Please go ahead.

Mohit Chugh – ShubhLabh Research: Hello. Hi, sir. I hope I am audible.

Management: Yes.

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Operator: Yes, please go ahead.

Mohit Chugh – ShubhLabh Research: Sir, my first question is, we have seen a decline in gross margin this quarter. Assuming commodity prices remain elevated in H2 also, should we expect similar margins in H2, or do you expect margin recovery through price pass-through to our customers?

Management: Good afternoon to everyone. Gross margin and EBITDA declined compared with the first quarter, and we tried to determine the reason. The decline is almost 4 points. Our freight cost for inward and outward shipments has increased because of the sudden increase in our business, especially on the export side. Freight cost alone is affecting us by around 1.8-2%. The second factor was the packing material cost. In the current quarter, the average price at which we purchased materials may have been different, so our material cost is quite high, around 1.8-2%. The third factor is specifically Daikin. Their price increased by around 30% from the earlier quarter, but their bottom line is fixed with us. Therefore, the top line has increased, but the bottom line is almost the same, so as a percentage it is down. Some business promotion expenses are also there. If I combine these four factors, they contribute almost 3-4%.

Mohit Chugh – ShubhLabh Research: Okay. Got it, sir. And also, sir—

Management: Yes.

Mohit Chugh – ShubhLabh Research: Yes, sir, please. You were saying something.

Management: Regarding the future, as you said, this quarter may remain almost flat because we have almost the same scenario, and the Diwali festival was in Northern India. Therefore, there were almost 2 weeks with fewer working days because of the holidays. On the future side, we are quite strong because, on the export side, we were earlier expecting around 200 crore, but now we are expecting more than 200 crore. It can reach around 250 crore. We also have a good pipeline and a good forecast for next year. Next year, we expect another 60-80% growth in exports alone. On the domestic side also, particularly in data centers, growth is quite good and beyond our expectation. In terms of top-line guidance, we are in line, or perhaps slightly above it.

Mohit Chugh – ShubhLabh Research: Okay, sir. And sir, sorry to press on this again, just to confirm, should we take EBITDA margin guidance for the full year FY25 in the range of 17-18%? Because you just said that this quarter will also remain flat.

Management: As of now, freight cost is still high because of the war conditions, so I am not expecting it to go down because we can change prices on a quarter-on-quarter basis. That is why I said the next quarter, which may be the fourth quarter, will be slightly better, but the third quarter may remain under pressure because we still see that costs are on the higher side. So, you may consider the same range that you mentioned.

Mohit Chugh – ShubhLabh Research: Okay, sir. Got it. My second question is on data centers. We understand that you do not disclose your order book since you have short-tenure orders. But could you provide us an indication of the visible data center order pipeline in terms of the number of months, or a ballpark value that is currently available to us or for which we are bidding?

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Management: On the domestic side, of course, we have all the data center customers. They are onboard with us. For some of them, we are the only source; for some, we have 50%, and for some, we have 60%. These orders will continue to roll on the domestic side. On the export side, we have more than 50 crore-plus of orders as of today, but those orders are also rolling. In total, specifically in data centers, in H1 we achieved around 180 crore compared with only around 38 crore in H1 last year. The growth is there. With most customers, we have rolling orders. They open orders for only 1 or 2 months, but if a project is firm, they may open orders for 3 or 4 months, but not more than that.

Mohit Chugh – ShubhLabh Research: Okay, sir. Got it. My second question is also on data centers. Since we are hearing that the AI cycle is slowing down, and while data center demand, frankly, and cooling infrastructure demand are coming from AI data centers, there are other opportunities as well, such as BESS. In BESS, HVAC pumps are installed, and in biogas plants, there are chillers. Are we exploring these kinds of opportunities?

Management: As of now, we do not have any slowdown in any of our products. In the opening remarks, we already said that we are also working on a brazed plate heat exchanger for liquid cooling. As of now, we are focusing on our main heat exchanger, and similar products such as dry air coolers and open-top condensers can also be used in data centers or in power plant cooling.

Mohit Chugh – ShubhLabh Research: Okay, sir. Those were my questions. I will join the queue again. All the best.

Management: Thank you.

Operator: Thank you. The next question is from the line of Lalit Agarwal from Bajaj Alternates. Please go ahead.

Lalit Agarwal – Bajaj Alternates: Thank you for the opportunity. Sir, I have 2-3 questions. First, in terms of revenue, in H1 we did 571 crores of revenue, and for the full year, you had earlier guided for around 1,200 crores of revenue. Since we are already around 315 this quarter, can we assume that this year we will surpass 1,200 crore, perhaps reaching somewhere around 1,250 crore or more?

Management: Sir, as of now, if there is no force majeure event or tariff-related issue from the United States, I think we can achieve what you said. However, if global tariffs increase or there is a war, exports could decline; otherwise, they will increase.

Lalit Agarwal – Bajaj Alternates: Exports are doing well, as we are seeing. It is around 400, which you guided, so are we on track for that?

Management: Sir, we guided for exports of 200 crore, and we are already in surplus there. Now, we are going to achieve around 200-250 crore.

Lalit Agarwal – Bajaj Alternates: Okay. On the other expenses, we have seen a jump this quarter, which you said was because of freight costs. Does this also include packaging costs, or are we seeing any warranty or BCTC service costs that have caused the increase in other expenses?

Management: The main contributor is freight cost, but selling expenses are also included under the same heading. The main contribution is from freight cost, particularly on the export side, and some

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contribution is also from the import side.

Lalit Agarwal – Bajaj Alternates: On other income, we have seen a significant jump this quarter. Does this include your RIPS incentives? Hello?

Management: No. We have 2 incentives in particular. One is PLI, and the second is RIPS, the Rajasthan Investment Promotion Scheme. We are eligible for both this year, but I think whether we report them or not will be decided by our auditor next year, once we have a firm certificate from the government. These are not included in other income. Other income mainly includes the interest earned on fixed deposits from the QIP money.

Lalit Agarwal – Bajaj Alternates: Okay. Understood. That is it from me. Lastly, regarding working capital, could you highlight it? Our presentation does not mention working capital anywhere. How is it progressing?

Management: Regarding working capital, our new facility is ramping up quite quickly. Over the last 1.5 months, or perhaps 2 months, we started working on working capital. We will already have taken some action during this quarter, but you will be able to see the results by the end of this year. You will see some positive developments in working capital, for sure.

Lalit Agarwal – Bajaj Alternates: Okay. You highlighted that cash flow would be positive by the end of FY27. Can we see that, or will it slip to—

Management: Yes, of course. If our working capital improves, cash flow will also improve. Both are linked.

Lalit Agarwal – Bajaj Alternates: Okay. Thank you so much for answering all my questions.

Management: Thank you.

Operator: Thank you. We will take our next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar – Sapphire Capital: Sir, am I audible?

Management: Yes.

Operator: Please go ahead.

Deepak Poddar – Sapphire Capital: Thank you very much for this opportunity, sir. First, I wanted to understand this year's margins. You are saying 17–18% EBITDA margin for FY27 for the entire year. Would that be the right understanding?

Management: We have discussed this same question. By the third quarter, I am seeing similar margins, but in the fourth quarter, they will increase. We want to understand it at 18%, which is why I said you can assume 18%, but it could be 1–2% on the positive side or remain similar. That is possible because freight costs and these other factors are still beyond our control. That is why I said this.

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Deepak Poddar – Sapphire Capital: By the fourth quarter, do you mean that the third quarter will have similar margins as the second quarter, and in the fourth quarter we might see margins that are 1–2% higher?

Management: Yes.

Deepak Poddar – Sapphire Capital: Is that what you are trying to say? Okay.

Management: Yes.

Deepak Poddar – Sapphire Capital: What is the margin differential between exports and domestic business?

Management: It also depends on the product and the customer. There is no single rule. However, if you compare average domestic and average export business, then, excluding freight cost, exports can sometimes be 4–5% higher.

Deepak Poddar – Sapphire Capital: 4–5% higher in terms of EBITDA margin?

Management: Yes.

Deepak Poddar – Sapphire Capital: I think we have said in the past that we intend to have around 50% exports, whereas it is currently around 22%. Ideally, that would be margin-accretive for us as we move toward a higher export mix, correct?

Management: You are right. Even with the initial customer, this year it is still around 20%. That was the outcome at that time. Our top line is increasing, but the bottom line and the percentage are down. Whatever new customers we onboard, and as exports increase, they will contribute to a higher EBITDA margin, including exports.

Deepak Poddar – Sapphire Capital: What is the timeline for reaching this 50% export mix?

Management: For heat exchangers, I think our target is next year, for the heat exchanger product only.

Deepak Poddar – Sapphire Capital: So, we are targeting a 50% export mix in FY28?

Management: Yes, for fin-and-tube heat exchangers only, not total revenue.

Deepak Poddar – Sapphire Capital: Correct. How much of the first-half revenue does heat exchange account for?

Management: Honestly, I do not have that data with me, so perhaps I can prepare it and let you know.

Deepak Poddar – Sapphire Capital: Just my last question is on capacity utilization and the order book. What is the current capacity utilization of the plant, and how do we intend to increase it over the next 2 years? Do we maintain any kind of order book that you can specify?

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Management: We do not have an order book on a monthly basis because orders are rolling from all our customers. You can consider it a rolling order book only. Regarding capacity utilization, this year we are going to achieve around 50%, and next year our target is to achieve 80% capacity utilization. For all the existing facilities, almost all of New HVAC Systems Private Limited will be utilized at 80%.

Deepak Poddar – Sapphire Capital: So, 50% capacity utilization in FY27 and 80% in FY28, correct?

Management: Yes.

Deepak Poddar – Sapphire Capital: The full revenue potential of this plant is 1,800 crores. Would that be the right understanding?

Management: I cannot comment on that figure, but utilization will be as stated because metal prices will also impact revenue.

Deepak Poddar – Sapphire Capital: I think we have said in the past that the revenue potential of this plant at 100% utilization was at that level. We are just trying to understand the revenue potential.

Management: I am saying that if metal prices increase, the number will be slightly higher, and if they decline, it will be lower. However, what you said—1,800 crores—can be considered a rough estimate.

Deepak Poddar – Sapphire Capital: Got it, sir. That is very helpful. That would be it from my side. I would like to wish you all the best. Thank you.

Management: Thank you.

Operator: Thank you. We will take our next question from the line of Pratik Dharamshi from Union Mutual Fund. Please go ahead.

Pratik Dharamshi – Union Mutual Fund: Thank you for giving me the opportunity. Santosh ji, many congratulations on a good set of numbers. My question is about the opportunity ahead for you. You mentioned in the past the electric bus and Vande Bharat train opportunities. How is the traction on that front, and what market opportunity are you targeting over the next 3–4 years from these areas?

Management: Regarding the bus air-conditioning business, the market in India is currently around 1,000 crore and is growing at around 25–30%, especially on the electric side. We are already supplying to electric buses, and I think we will receive some good approvals within the next 1–2 months, especially for electric buses. This business is growing.

Regarding railways, we already have a team and have already made the prototype. I think that in the next 2 weeks, the railway team will visit our plant for approval, particularly for train air conditioning. Once we have plant approval, we will be able to participate in the upcoming tender for Indian Railways. First, it will start with cab driving, then LHB coaches, and then we can gradually enter the Vande Bharat segment and, of course, the metro segment. This will be a long journey, but we are expecting around 20 crore of revenue from Indian Railways, particularly from HVAC systems, by next year.

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Pratik Dharamshi – Union Mutual Fund: Got it. My second question is again on margins. In the short term, because of freight costs, we are seeing some pressure on margins for a quarter or two. On a steady-state basis, with more data centers and greater export opportunities, logically the margin band should remain between 18% and 20% over the medium to long term, rather than in the short-term period of 1-2 quarters, correct?

Management: For the long term, you are right because our export revenue will grow, particularly with a slightly higher margin from the data center industry. Our incentives will also contribute, especially from next year. Therefore, margins will be slightly higher. For this quarter, we are slightly under pressure, but I think—

Pratik Dharamshi – Union Mutual Fund: That is okay. My last question is on revenue growth. You mentioned that there is scope to improve from the previously guided number of 1,200 crore to perhaps 1,250 crore. On a steady-state basis, after this year, would a CAGR growth of around 25% be achievable over the next 3-5 years, given the opportunities in exports, data centers, buses, and railways? What is the ideal number one should work with?

Management: Next year, our growth will be much higher than what you said. After the following year, you can consider a minimum growth rate of 30%, because we now have multiple product portfolios and new customers on new product lines. We are also going to enter the complete HVAC systems business, especially for cold storage units, as well as dry air coolers and open-top condensers. These products will contribute to good revenue and margins. We have started selling that product line based on our own designs, and we are also manufacturing for OEMs.

Pratik Dharamshi – Union Mutual Fund: Got it. This also includes the opportunity in the United States and exports, including data centers where you already have committed orders, correct?

Management: For exports, as of now, we are mainly doing fin-and-tube heat exchangers.

Pratik Dharamshi – Union Mutual Fund: Got it. Thanks a lot, and once again, many congratulations.

Management: Thank you.

Operator: Thank you. The next question is from the line of Neil from SageOne. Please go ahead.

Neil – SageOne: Thanks for the opportunity. I have a question on the supply chain. Starting next—

Operator: I am sorry, Neil. Can you use handset mode, please? Your audio is not very clear.

Neil – SageOne: Sure. Is this better now?

Management: Yes.

Operator: Yes.

Neil – SageOne: My question was mainly on the supply chain side. Starting next month, BIS certification for copper tubes is coming in. How would that impact our profitability? Could you also comment on the availability, because all of it now has to be sourced domestically?

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Management: We will have 3 tools pertaining to this topic. The first is, of course, [trails off] we have increased some inventory. The government allowed us to purchase 50% of last year's quantity, and we already have that in stock. That is the first measure.

Second, we are trying to develop local suppliers as well. We have asked for samples and plant approval.

Third, we have a tool, particularly for exports, called an advance license. We can purchase material against an advance license to control our supply chain. We will also be able to pass the same pricing on to our customers. Whatever price we receive from domestic suppliers, we will be able to pass it on to our customers from the next quarter. As of now, I think there is no challenge for us.

There are already 2 manufacturers, particularly for IGT copper tubes. One is MetTube, which has already started supplying, and the second is Hindalco. They have already started supplying to other OEMs. We are also trying to source the same material from them. BIS certification for plain copper tubes still applies to both external and local sources, so we are using both. That is how we are able to manage our supply chain.

Neil – SageOne: Okay, got it. Are 5 mm tubes also domestically available today?

Management: Yes, MetTube is making them.

Neil – SageOne: Okay, got it. Is there any other product in the supply chain where you foresee some constraint in terms of availability or price fluctuation, or any major price fluctuation in the near future?

Management: For us, I think there is no other product. There is some issue with compressors, particularly for bus air conditioning. Our bus air-conditioning team is also trying to develop them locally. Other than compressors, I think we do not have any challenge. Copper tubes and compressors are the only 2 things for us.

Neil – SageOne: Okay. That is all from me. Thanks a lot.

Operator: Thank you. The next question is from the line of Hoshang Hindocha from Helios Financial Services. Please go ahead.

Hoshang Hindocha – Helios Financial Services: Hi. Can you tell me whether I am audible?

Management: Yes.

Hoshang Hindocha – Helios Financial Services: Sir, I have one question. Could you, if possible, provide some detail on the revenue breakdown by product segment, such as fin-and-tube, bar and plate, and complete HVAC systems, as per the bifurcation given in the investor presentation?

Management: I do not have that data in front of me. Perhaps you can send us an email, and we can provide it by email. It is a multiple-product portfolio.

Hoshang Hindocha – Helios Financial Services: Understandable. One more question, sir. In the last call, I think you mentioned that, regarding electric buses, the aim was to achieve 15% of the total

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market share. What, according to you, would be the total market share, and by when would you achieve this? Have you already achieved it, or would you achieve it in a quarter or two? Please shed some light on this.

Management: The total market, including both electric and conventional vehicles, is 1,000 crore, not only the electric market. Electric is one part of the segment. Regarding the 15% that we mentioned, we are currently slightly below that level compared with H1, but we are hopeful that H1 will have higher revenue than the previous H1, particularly for our bus air-conditioning division. We will have some approvals, which may have been slightly delayed by the OEM, or perhaps the process for the part has taken longer. So, perhaps I can—

Hoshang Hindocha – Helios Financial Services: So, perhaps by FY27, say Q3, would we roughly achieve that market share? Are we already quite close to it?

Management: I can comment more precisely in Q3. For now, I think we are slightly below our expected market share in percentage terms.

Hoshang Hindocha – Helios Financial Services: One more question. You mentioned in the call that currently only fin-and-tube products are being exported. If I am not mistaken, bar and plate, complete HVAC systems, and bus HVAC systems are higher-margin product segments. Are you planning to export those as well? Could you also comment broadly on the margin profile by segment? For example, does the bar and plate segment have a higher margin compared with refrigeration components?

Management: Bar and plate margins are slightly higher, but as of now we are focusing on domestic customers. Once we have established good revenue from domestic customers, we will be able to switch on the export side as well. If we have the same customers, we are also sending our company profile to them. Compared with fin-and-tube products, bar and plate products have a slightly higher margin. In percentage terms, bus air conditioning also has a slightly better margin. Refrigeration components have a slightly lower margin compared with fin-and-tube products. Complete HVAC systems also have a better margin compared with fin-and-tube products because all the parts are manufactured in-house, especially sheet metal, tubing, and heat exchangers. That is the idea.

Hoshang Hindocha – Helios Financial Services: This is my final question. You mentioned that margins would improve slightly in Q4. I understand that COGS have increased because of exports. Could you explain why margins would improve in Q4, considering that you mentioned Q3 would be flat or muted?

Management: We expect our top line to be slightly better in Q4 compared with Q2 and Q3. Therefore, we will have operating leverage. We also expect exports to be slightly higher in Q4, which is why I said that.

Hoshang Hindocha – Helios Financial Services: Understood. I will get back in the queue if I have any further questions.

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Operator: Thank you. We will take our next question from the line of {? Achal Pabbathi ?} from {? Bukan Capital ?}. Please go ahead.

{? Achal Pabbathi ?} – {? Bukan Capital ?}: Hi, sir. In the investor presentation, you mentioned that some new customers have been qualified and that you are planning to onboard them. Can you give us an indication of the sectors these customers are from and how large they are?

Management: We have new customers in every segment. Their revenues are different, and I do not have those details. We have new customers for bar and plate, bus AC, refrigeration components, complete HVAC systems, and fin-and-tube products. Some customers have also shifted from terminals to complete HVAC systems. In total, we added more than 30 new customers last quarter across all segments. However, I do not have the revenue details specifically.

{? Achal Pabbathi ?} – {? Bukan Capital ?}: Are you onboarding any large customers in the data center segment?

Management: Yes, on the export side in North America, we have one large customer as well.

{? Achal Pabbathi ?} – {? Bukan Capital ?}: Regarding capacity utilization, when can we utilize the capacity completely—by FY29 or FY28—and what top line can we expect at 100% utilization?

Management: Next year we are expecting 80% utilization, and in parallel we are going to open a new facility for South India in Bangalore. Some capacity will also be shifted to Bangalore. Therefore, 80% utilization is almost full, and additional capacity will be used from Bangalore after next year.

{? Achal Pabbathi ?} – {? Bukan Capital ?}: In FY29, is it possible for you to tell us what maximum top line you can achieve?

Management: It is difficult for me to state the top line, so perhaps I can comment only on capacity.

{? Achal Pabbathi ?} – {? Bukan Capital ?}: In FY29, what will be the capacity growth with the current capacity?

Management: Next year it will be 80%, and after that you can consider 30% growth.

{? Achal Pabbathi ?} – {? Bukan Capital ?}: Okay, sir. Thank you.

Operator: Thank you. The next question is from the line of Hemant Shah from ITI Mutual Fund. Please go ahead.

Hemant Shah – ITI Mutual Fund: There does not appear to be any problem with the size of the opportunities available to you, but could you walk us through how you maintain your working capital cycle? Last year, FY26, we also saw significantly negative operating cash flow. This suggests that perhaps you built up inventories before the season for supply in the first quarter, which is usually the best quarter, if I understand it correctly. Could you walk us through 2 aspects: the average working capital cycle, and how the raw material pass-through happens for each metal part or for plastics, as the case may be?

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Management: Our inventory, in terms of the balance sheet or number of days, is quite high for multiple reasons. We have already explained the reasons, particularly the BIS certification requirement. However, we expect that by the end of this year we will be able to control our inventory because we have started monitoring it and have started using an SAP-level system to control inventory. You will be able to see the result in our balance sheet by the end of this year.

To improve working capital, we are working on inventory. Second, we are working on factoring, so on the export side we will use factoring. For imports, we will have buyer's credit, which will also help improve working capital. Our finance department has already started working on these 2 areas. By the end of this year, we will be able to control cash flow, working capital, and inventory.

Regarding the material pass-through, we can pass through everything on a quarter-on-quarter basis, including plastic. Of course, we do not use plastic. We use aluminum, copper, and stainless steel, and of course—

Hemant Shah – ITI Mutual Fund: In the assembly, you do not use plastic, sir? In the complete assembly, there would be injection-molded parts, correct?

Management: No, we do not have much. There may be a few or very small parts, because we manufacture the complete HVAC system using stainless steel or galvanized iron with powder coating. The fan is a bought-out part with its surrounding structure. The main part of bus air conditioning is FRP, not plastic, actually. There may be some small plastic parts, but they are a very small percentage—very few, perhaps only very small parts.

Hemant Shah – ITI Mutual Fund: Overall, as you manufacture these products, is there some pricing power with new customers initially because you customize for them, or is there no pricing power after a particular period?

Management: If there is customization and the part is critical, then, because of backward integration, delivery, and quality, we have some pricing power with some customers and for some products.

Hemant Shah – ITI Mutual Fund: In that case, why should the pass-through be quarterly during a volatile period? I wanted to understand that. Should it not possibly be monthly or every 2 months?

Management: This is actually the pricing pattern.

Hemant Shah – ITI Mutual Fund: In volatile times such as these, although perhaps not in non-volatile times, it can revert to quarterly. But in volatile times, can it be monthly? If copper moves from $13,000 to $14,000 in less than a month, what do you do?

Management: I understand what you are saying, but our work is mainly not project-based. We have regular work with the same OEM, and quarterly revenue is also almost the same or growing. Therefore, we have to follow the contracted pricing. If the price declines, our customer will not ask us to reduce the price. I think the average is therefore used. Otherwise, we would have to change the purchase order every month, and it would be difficult to run the long-term business.

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Hemant Shah – ITI Mutual Fund: Secondly, could you help us understand the BIS norm? To what extent are you seeing an increase in offtake? Are we seeing a clampdown on imports and higher ordering for us? Is that what you are experiencing?

Management: Especially for IGT tubes, I think the government is quite strict now. Earlier, they may have imposed restrictions on plain tubes, but now they are also restricting IGT tubes. They have allowed us to import only 50% of last year's quantity. However, we also have an advance license because we export, so for exports we can buy without BIS certification or other such requirements. This makes it easier for us, and we have time to close this advance license over the next 3 years.

Domestic players are also becoming significant. The government wants to support Make in India, so as a manufacturer we also have to comply. We will use locally sourced material for domestic supplies and for exports [trails off]

Hemant Shah – ITI Mutual Fund: [inaudible] Okay, sir. I will come back in the queue. Thank you so much.

Management: Thank you.

Operator: Thank you. The next question is from the line of Abhisar Jain from Monarch AIF. Please go ahead.

Abhisar Jain – Monarch AIF: Hi, sir, and congratulations on the good scale-up in the top line. Komal mentioned that we are developing some products for liquid cooling in data centers. Can you provide some detail on what that product would be and how far we are from commercializing it?

Management: The main product would be related to our heat exchanger business. It is a brazed plate heat exchanger. We are working to develop it because we already have some technology for brazing these products. It requires vacuum brazing, which we already use for bar and plate heat exchangers. We are working to develop this product, but it will take another 1.5 years from now. Production will not begin in the next financial year, but after FY28, perhaps in FY29, we will have some revenue specifically from this product.

Abhisar Jain – Monarch AIF: If you can give an indication, how much does the content decline in a data center when it is liquid-cooled versus air-cooled? Our products are more exposed to the air-cooling part of the data center cooling mechanism. Is there any rule of thumb or indication on that front?

Management: I will try to explain this concept again. Earlier, I also had some concerns, but now we are clearer about liquid cooling and air cooling. Earlier, data may have been stored in one particular room. For example, they may have stored 10 kW in a room, just as an assumption, and the entire room may have been cooled by liquid. Now, on the same rack, they can load more than 1,000 kW of data. That data can be cooled by liquid cooling, but the room still has to be cooled by air cooling.

This means our product will remain the same on the indoor side, and on the outdoor side our products will be present in the form of chiller heat exchangers or dry-cooler heat exchangers. There will be no change outside. Our product will remain the same on the indoor side, but an additional brazed plate heat exchanger will be added in the CPU.

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Abhisar Jain – Monarch AIF: Understood, sir. I also wanted to ask about the Thermotech research laboratory that we started some time ago, which gives us advanced testing capability. How is that progressing, and how is it increasing our capability to develop more complex products as we move ahead? What capabilities are we gaining from it?

Management: Earlier, we made heat exchangers only according to the customer's design, and we did not have anything with which to test them. If a customer asked for a particular design, we could make it and send it to them, and then wait for their feedback and approval. Sometimes they would say that our product was not performing because of a particular reason. The pressure drop might not be good, or the capacity might not be good.

Now, we can test the same product in our laboratory. If our product performs in our laboratory, we can tell the customer that the product is performing and that they may have another problem. That is the first concept.

The second concept is that we can provide value engineering while retaining the same footprint and changing the geometry. In simple terms, we can reduce the copper weight and match the capacity of the old version while retaining the same footprint. The customer can then achieve some savings. We can pass some of those savings on to the customer and retain some savings with us. This means we can design a new product for our customer.

Third, we can also test our individual products. For a complete HVAC system, as a business case, this is a third-party laboratory. As of now, we have already started testing our own products. NABL testing is currently underway. We expect to receive NABL certification for this laboratory in the next 4-5 weeks, and then we will apply for AHRI certification. External business may start 2-3 months after we receive NABL and AHRI certifications, but we started our internal testing 2-3 months ago.

Abhisar Jain – Monarch AIF: Understood, sir. My last question is on competition. In our range of products, we have expanded into HVAC systems and product businesses in refrigeration and bus AC. How is the competition reacting, considering that everyone in the industry may be looking at our scale-up and growth? Who are the key competitors you are seeing already in the market or emerging for coils and for all these products that you are making?

Management: We now have multiple competitors for each product, with different competitors for different products. Bar and plate is a different type of industry. The main competitor is BHEL for Indian Railways, and we are also trying to supply to Indian Railways. There are also different competitors for customers in off-road vehicles and heavy earth movers.

Many customers still import bar and plate products, so we are trying to give them confidence in our products as well. They have slowly started working with us, particularly for bar and plate.

For refrigeration components, there are around 3 competitors specifically in that industry. For bus air conditioning, there are also almost 3 competitors specifically in that industry. For heat exchangers, of course, you know the market. Complete HVAC systems, dry coolers, and complete refrigeration HVAC systems also have different sets of competitors.

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Honestly, we do not see our competitors specifically trying to target our segment. However, we do our best when we develop products. We believe in quality, cost, and delivery. If the customer receives these 3 things, then I think we can survive without any issue.

Abhisar Jain – Monarch AIF: Understood, sir. Thank you, and best wishes.

Management: Thank you.

Operator: Thank you. The next question is from the line of Heta Vora from {? Bohring AMC ?}. Please go ahead.

Heta Vora – {? Bohring AMC ?}: Hello?

Management: Yes.

Operator: Yes, we can hear you. Please go ahead.

Heta Vora – {? Bohring AMC ?}: I have 2-3 questions. Firstly, in FY26, I believe we added around 70 new customers. Would you have the split of the revenue contribution from these newly onboarded customers in our current revenue?

Management: I do not have that data. Perhaps you can send us an email, and we can provide it by email.

Heta Vora – {? Bohring AMC ?}: All right. Secondly, in Q2 FY27, what was the revenue contributed by data center orders?

Management: Data center revenue in Q2 was around 116 crore.

Heta Vora – {? Bohring AMC ?}: 116 crore. What was the same figure in Q2 FY26, the same quarter last year?

Management: It was only 18 crore.

Heta Vora – {? Bohring AMC ?}: Okay.

Management: In total, H1 FY25-26 revenue was around 38 crore, close to 38 crore. H1 FY26-27 revenue was around 180 crore.

Heta Vora – {? Bohring AMC ?}: That is phenomenal growth from this sector. Are we expecting a similar CAGR going forward from data centers?

Management: As of now, yes.

Heta Vora – {? Bohring AMC ?}: What is the execution timeline for these orders? Is it the same as our normal commercial AC orders?

Management: If we have a forecast or a continuing customer, then the timeline is the same. For new development, it sometimes takes almost 6 months or 8 months.

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Heta Vora – {? Bohring AMC ?}: So, are we also proceeding with developing new products for other customers?

Management: We are always open to new customers. We regularly participate in exhibitions, especially in Europe, North America, and India. If a new customer requires products from the same portfolio, we always welcome that new customer as well.

Operator: Thank you. That was the last question for today. I now hand over the call to management for concluding remarks. Over to you.

Management: Thank you all for attending this call. I think we tried to address everything you asked. I am quite confident about the coming 2 quarters as well. As we said, we will achieve a slightly higher top line and will also control the bottom line. We are optimizing well through exports, particularly in the data center industry, as well as through our other products. Thank you all.

Operator: Thank you, members of the management team. On behalf of Dolat Capital, that concludes this conference. Thank you all for joining us today. You may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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