"KRN Heat Exchanger and Refrigeration Limited

Q2 FY27 Earnings Conference Call"

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MODERATOR: **MS. HIRAL PAREKH – DOLAT CAPITAL MARKETS PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the KRN Heat Exchanger and Refrigeration Earnings Conference Call hosted by Dolat Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing 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: Thank you, Yash. Good afternoon, ladies and gentlemen. On behalf of Dolat Capital, I'm pleased to invite all of you to the Q2 FY27 Earnings Conference Call with the management of KRN Heat Exchanger and Refrigeration Limited. The management is represented by Mr. Santosh Kumar Yadav, the Chairman and MD; Mr. Pawan Nawal, 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 Yadav: Am I audible?

Moderator: Yes ma'am. Please go ahead.

Komal Yadav: 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 FY27 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 market.

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, and 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 product 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 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 body builders as our customers and are engaging with other OEMs so we can add them as well.

And though, as you know, approvals in this segment takes some time, having the heat exchanger, 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 teams 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 FY27 stood at INR319.14 crores, a growth of 109.86% year-on-year from INR152.07 crores in Q2 FY26.

EBITDA grew 61.10% to INR48.75 crores with an EBITDA margin of 15.27%. Net profit doubled to INR36.11 crores, up by 100.38% year-on-year with a net profit margin of 11.32%. For H1 FY27, consolidated revenue from operations was INR571.45 crores, up by 113.75% year-on-year from INR267.35 crores in H1 FY26. EBITDA more than doubled, rising 104.40% to INR97.81 crores with an EBITDA margin of 17.12%. Net profit grew 126.68% to INR69.01 crores and net profit margin improved by 69 basis points to 12.08%.

Exports were a key contributor during the half. Exports revenue rose 192% year-on-year to INR125.8 crores and now accounts for 22% of total revenue compared with 16% in H1 FY26. The United States was our largest export market, contributing to 43.7% of exports revenue, and our top 5 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.

Moderator: Thank you very much. We will now begin the question-and-answer session. We take our first question from the line of Mohit Chugh from Subh Labh Research.

Mohit Chugh: Sir, my first question is, we have seen a decline in gross margin this quarter. Assuming commodity price remains elevated in H2 also, should we expect similar kind of margins in H2? Or do you expect margin recovery through pass on -- price pass on to our customers?

Santosh Kumar Yadav: So of course, gross margin and EBITDA compared to first quarter. And of course, we try to figure out what was happened. So we have almost 4 point. So our freight cost for inward and outward has increased because suddenly increase especially for export side. So it's around 1.8% to 2%, it is there for freight cost only.

And second, the big is material cost. So current quarter, maybe last when we both -- our average price, maybe there is a difference. So our material cost is quite high, around 1.8% to 2%. And third one, especially with Daikin because the price last quarter, they increased around 30% of the earlier quarter, but their bottom line is fixed with us.

So top line increased, but bottom line almost the same way. So in terms of percentage, of course, is down and some business promotion expenses also there. So if I club these 4, so it's contribute almost 3% to 4%.

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

Santosh Kumar Yadav: About future value side, of course, this quarter, maybe we will go almost flat because this will have almost same scenario and Diwali festival also in North India so we have almost 2 weeks, almost maybe not less work, but not holiday. But future side, we are quite strong because export side, if you see earlier, we are expecting around INR200 crores, but now we are expecting more than INR200 crores, it can be reached around INR250 crores.

And we have good pipeline and good forecast for next year as well. So next year, we expect almost another 60% to 80% of growth in terms of export only. And domestic side also, particularly in data center growth is quite good, behind our expectation. So in like top line guide, and we are in line, maybe slightly up.

Mohit Chugh: Okay, sir. And sir, sorry to press on this again, just to confirm, should we take EBITDA margin guidance for full year FY27 in the range of 17% to 18%, I think you said that this quarter will also remain flat?

Santosh Kumar Yadav: As of now, because of this freight cost is still because of the war condition so I'm not expecting it will go down because we can change price on quarter-on-quarter basis. So that's why I said. So next quarter, maybe quarter 4 will be slightly up, but quarter 3 because still we see freight cost is still on higher side. So maybe you can consider on same what you said.

Mohit Chugh: Okay sir. Got it. And my second question is on data center. We understand that you do not disclose your order book since we have short tenure orders. But if you could provide us an indication of visible data center order pipeline in terms of number of months for a ballpark value that is currently available for us or we are waiting for that.

Santosh Kumar Yadav So actually, in the domestic side, of course, we have all data center customers on board with us. So some of -- we are only single source with some of maybe 50%, some of maybe 60%. So rollings order will be continue with the domestic side and export side is still -- we have almost more than like you can say this year, INR50 crores plus order as on today, but it's also -- with them also is rolling. So total, if you see in particularly data center in H1, we almost achieved around INR180 crores. If you compare to last year H1, it's around only INR38 crores.

So growth is there. And with maximum customer, we have rolling order like they open only for 1 or 2 months. But some project if they have firm, then of course, they can open for maybe 3 or 4 months, but not more than.

Mohit Chugh: Okay, sir. Got it. Sir, second question is also on my data center. Since we are hearing that AI cycle is slowing down and while data centers demand is currently -- the cooling infrastructure demand is currently from AI data centers, but there are other opportunities as well that are growing that is if we see BEV system on downside of it some HVAC systems is installed and also on biogas plants, there are chillers. So are we exploring these kinds of opportunities?

Santosh Kumar Yadav: As of now, we don't have any slowdown, particularly in our product. And in opening remarks, we already said we are working on this brazed heat exchanger as well for this liquid cooling heat exchanger. And as of now, we are focusing, of course, on our main heat exchanger and similar product like dry air cooler and open-top condenser that also can use in data center or maybe on power plant cooling as well.

Moderator: Next question is from the line of Vinit Agarwal from Bajaj Automate.

Vinit Agarwal: Sir, I have 2, 3 questions. So first is in terms of revenue, like in H1, we did INR571 crores revenue. And for the full year, you had guided earlier around INR1,200 crores kind of revenue. So since we already are around INR315 crores kind of run rate this quarter, so can we assume like this year, full year, we would surpass the INR1,200 crores kind of more than -- somewhere between INR1,250 crores kind of revenue or more than that?

Santosh Kumar Yadav: So as of now, if there is nothing like force majeure side or some traffic side from U.S.A., I think we can achieve what you said, but some machinery, especially in global like traffic or maybe some war will increase, and of course, export will then can be down. Otherwise, it will be up.

Vinit Agarwal: And export is doing well, like which we are seeing, like it's around INR400 crores, which you guided. So we are on track on that?

Santosh Kumar Yadav: Export, I think we guided INR200 crores, and we are surplus that's almost now we are going to achieve around INR250 crores.

Vinit Agarwal: Okay. And sir, on the other expenses, like this quarter, we have seen a jump, which you said because of freight cost. But is this also included some factoring cost charges? Or are we seeing any warranty of bus AC service cost like that because of which we have seen increase in other expenses?

Santosh Kumar Yadav: The main contributor is freight cost only, but the selling expenses are also on the same order, but main contribution is by freight cost, especially for export side and some by import side as well.

Vinit Agarwal: And on the other income, like this quarter, we have seen significant jump. Is it -- does this include your RIPS incentives?

Santosh Kumar Yadav: No. This particular about we have 2 incentives. So one is PLI and the second one is the RIPS Rajasthan Investment Promotion scheme. So these both -- we are eligible for particular this year, but I think we will report or not -- our auditor will report in next year only once we have a certificate -- firm certificate by government. So these are not included in other income. So mainly, I think, included interest what we achieved by FD from QIP money.

Vinit Agarwal: Okay. Understood. Okay. So that's it from me. And lastly, sir, on the -- in terms of working capital, if you can highlight some because in your presentation, nowhere it is mentioned about the working capital. So how is it...

Santosh Kumar Yadav: So about working capital because, of course, this is our new facility, and we are ramping up quite fastly. So -- but since last 1.5 months or maybe you can say 2 months, we started working on working capital. So this quarter, we will have already some action, but -- in result, you can be able to see by end of this year, you will see some positive things about working capital for sure.

Vinit Agarwal: Okay. And the cash flow positive, which you highlighted for end of FY27, can we see that or it will shift to...

Santosh Kumar Yadav: Yes. If our working capital will improve, then of course, cash flow also will improve so both are linked.

Moderator: We'll take our next question from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir, just first up, I wanted to understand -- so this year, the margins you are saying for FY27, 17% to 18% EBITDA margin for the entire year. Would that be a right understanding?

Santosh Kumar Yadav: So actually, same question asked so we can -- maybe by third quarter, I'm seeing, but fourth quarter, of course, it will increase, but we want to understand it will -- I can understand remain same. So that's why I said you can maybe understand. But it can be 1% or 2%, maybe plus side or maybe similar side it's possible because still this freight cost and these things is under our control. So that's why I said.

Deepak Poddar: So by fourth quarter, I mean, what do you mean, third quarter will have similar margins as second quarter. And fourth quarter, we might see 1%, 2% higher.

Santosh Kumar Yadav: Yes.

Deepak Poddar: Is that what you're trying to say? Okay. Okay. Okay. And what's the margin differential between exports and domestic?

Santosh Kumar Yadav: So it's also depend on product and customer. It's not -- there is some rule. But of course, if you compare to like average domestic and average exports so it can be sometime maybe like if I not consider freight cost, then it can be 4% to 5%.

Deepak Poddar: 4% to 5% EBITDA margin higher.

Santosh Kumar Yadav: Yes.

Deepak Poddar: Okay. And I think we have said in the past that we intend to have 50% kind of export, right, which is currently, I think, 22%. So ideally, that would be margin accretive for us, right? Because as you go towards a higher...

Santosh Kumar Yadav: Actually. Yes, you are right. Even initial customer like, of course, this year is still around 20% we have from Daikin and Daikin is our bottom line. So top line is increasing, but bottom line percentage is down. So whatever new customer we are onboarding or export increasing, of course, they contribute on a higher EBITDA margin for sure, including export.

Deepak Poddar: And what's the time line for this 50% export mix and how much time line?

Santosh Kumar Yadav: So for heat exchanger, of course, I think our target is till next year only, for heat exchanger product only.

Deepak Poddar: So 50% export, we have target to reach in FY28 in exports?

Santosh Kumar Yadav: Yes. For fin-and-tube heat exchanger only, not total revenue.

Deepak Poddar: Correct. And heat exchange, how much percentage of this first half revenue?

Santosh Kumar Yadav: So honestly, this part I don't have on my hand. So maybe I can prepare and let you know.

Deepak Poddar: Okay. Sure. And just my last thing on the capacity utilization and order book. So just wanted to know what's your current capacity utilization of the plant and how we intend to increase that over the next 2 years? And do we maintain any kind of order book so if you can specify that?

Santosh Kumar Yadav: So order book, of course, we don't have like much detail because our order is rolling from all customers. So you can consider rolling order book only. And about capacity utilization, so this year, we are going to achieve around 50%. And last year, our target is to achieve 80% capacity utilization for -- of course, all is almost utilized for new KRN HVAC Products Private Limited will be 80%.

Deepak Poddar: So 50% capacity utilization of FY27 and 80% FY28, right?

Santosh Kumar Yadav: Yes.

Deepak Poddar: And full revenue potential of this plant is INR1,800 crores. Would that be a right understanding?

Santosh Kumar Yadav: So that I think I can't comment, but utilization -- because metal price also will impact, not revenue so...

Deepak Poddar: Okay. Okay. I think we have said in the past, right? I mean, in terms of revenue potential of this plant at 100% utilization. So I was just trying to understand what is our revenue potential.

Santosh Kumar Yadav: Same thing I'm trying to say like metal price will go, then, of course, then the numbers will be slightly higher. It goes down. But what you said, I think it's the same way, maybe you can consider.

Moderator: We'll take our next question from the line of Pratik Dharmshi from Union Mutual Fund.

Pratik Dharmshi: Santoshji, many congratulations for the good set of numbers. My question was on the opportunity lying ahead for you guys. So you mentioned in the past electric bus Vande Bharat train sort of opportunity coming up. How is the traction you are seeing on that front? And what would be the market opportunity you are eying in the next 3, 4 years coming from this side?

Santosh Kumar Yadav: So particular bus air conditioning business, of course, market is, as of now, I think INR1,000 crores for India market and it's growing, I think, 25% to 30%, especially on electric side. So we are already supplying to electric bus, and I think we will have some good approvals within the next 1 or 2 months, especially for electric only. So this business is growing.

And about railway, we already have team, and we already made the proto. Even I think in coming 2 weeks, we will have railway team also for our plant approval, especially for cab air conditioning. And once we will have plant approval, then we can able to participate in the coming tenders for Indian Railway.

So first, it will start for cab driving and then LHB coaches and then we can maybe slowly enter on the Vande Bharat and of course, then Metro. So this will be a long journey, but we are expecting around INR20 crores of revenue from Indian Railway, particular to HVAC system by next year.

Pratik Dharmshi: Got it. And second, again, sorry for harping again on margin front. Obviously, in the short term because of freight cost, etc., we are seeing some pressure on margins for a quarter or 2. But on a steady-state basis with more data center, more export opportunity, logically, the margin band should remain between 18% to 20% over medium to long term, right? Not the short term...

Santosh Kumar Yadav: Yes. For long term, we can -- you said rightly because our export revenue will grow and especially, we will have slightly up margin, especially from the data center industry. And of course, our both incentive will also contribute, especially from next year. So margin slightly up. Of course, this quarter, we have slightly in EBITDA, what I said.

Pratik Dharmshi: That's okay. And last one on the revenue growth side, you mentioned that there is scope to improve from previously guided number of INR1,200 crores range to maybe INR1,250 crores. On a steady-state basis, post this year, 25-odd percentage CAGR growth can be doable with the opportunities in terms of exports, data centers, bus railway, multifold. What would be the ideal number one should work with over the next 3, 5 years?

Santosh Kumar Yadav: So next year, of course, our growth will be much higher, what you said. But maybe after next 1 year, then maybe minimum, you can consider, of course, 30% will be there because we have multiple product portfolio on our table now. And of course, new customer as well on the new product line as well.

So now we are also going to enter complete HVAC system as well, especially in cold storage unit and then dry air cooler open-top condenser. So this help to contribute in good revenue and margin as well. So that product line also, we started to sell in on our own design and also we are making for OEM as well.

Pratik Dharmshi: Got it. And this also includes the opportunity in the U.S. and export side for data centers where you already have committed orders?

Santosh Kumar Yadav: So as of now, mainly we are doing fin-and-tube type heat exchanger only.

Moderator: Next question is from the line of Neel from SageOne.

Neel: I have a question on the supply chain. So starting next...

Moderator: I'm sorry, Neil, can you use your handset mode, please? Your audio is not very clear.

Neel: Sure. Is this better now?

Santosh Kumar Yadav: Yes.

Neel: So my question was mainly on the supply chain side. Starting next month, BIS for copper tubes is coming in. So how would that impact our profitability as well as if you can comment on the availability of it because all of it has to be now sourced domestically?

Santosh Kumar Yadav: So we will have 3 tools particular to this topic. So first is, of course, we increase our some inventory, what our government allowed 50% of the last year, you can buy so that we -- already we have in our stock. So this is the first. Second, of course, we are trying to develop local supplier as well. So we ask for sample and plant approval.

And third, we have tool especially for -- to consider export advanced license. So we can buy material against advanced license to control our supply chain. And same things we can able to pass on to our customer, whatever price we will receive from domestic so we can able to pass on from next quarter to our customer as well.

So as of now, for us is, I think, no challenge. And already 2 manufacturers is there, particularly to IGT copper tube. So one is MetTube, they are already supplying and second is the Hindalco. So they already started supplying to other OEMs. So we are also trying to get same material from them. And plain copper tube still BIS is there from outside and locally both. So we are using both. So that's why we can able to manage our supply chain.

Neel: Okay. Got it. And also 5 mm tubes are domestically available today?

Santosh Kumar Yadav: Yes, MetTube is making.

Neel: Okay. Got it. And any other product in the supply chain where you feel that some kind of constraint or in terms of availability or price fluctuation -- major price fluctuation is foreseen in the near future?

Santosh Kumar Yadav: For us, I think there is no other product. Some is this compressor particularly to bus air conditioning. So that also we are trying to develop locally by our bus air conditioning team. So other than this compressor, I think we don't have any challenge. So copper tube and compressor only 2 things for us.

Moderator: Next question is from the line of Hoshang Hinduja from Elios Financial Services.

Hoshang Hinduja: Just one question. With regards to -- could you if possible maybe giving the revenue breakdown as per the product segment with regards to fin tubes and bar plates and complete HVAC systems and like as per the bifurcation that's given in the investor presentation, would it be possible to share that?

Santosh Kumar Yadav: So actually, this data, I don't have in front of me. So maybe you can write down the mail so we can be able to provide by mail because it's a multiple product portfolio so...

Hoshang Hinduja: So one more question, sir. I think you had mentioned that with regards to the electric bus, you -- I think the aim is to, I think, achieve 15% of the total market share, right? One question is like what according to you like would be the total market share? And by when would you achieve this or have already achieved this, like maybe in a quarter or 2, would you be achieving it? Or could you just share?

Santosh Kumar Yadav: So total market, including electric and of course, conventional, both market is INR1,000 crores, not only electric. So electric is one of the part of them. And what we said 15% so slightly, we are maybe lower side compared to this H1, but we are hopeful H1, we will have more revenue compared to H1, particular to bus air conditioning our division because we will have some approval maybe slightly delayed by OEM or maybe you can say process of the part. So maybe I can...

Hoshang Hinduja: So maybe perhaps we can say by FY27 safely, we would achieve that market share roughly or at least pretty close to it.

Santosh Kumar Yadav: Maybe -- I think precisely, I can may be able to comment on maybe Q3, it will be better. So now I think we are on -- maybe slightly down compared to what we -- in terms of percentage of the market share.

Hoshang Hinduja: Okay. And one more question. You mentioned in the call that with regards to exports currently, only fin and tube product segment is being exported, right? And if I'm not wrong, the bar and plate and the complete HVAC systems and bus air conditioning are the highest margin product segment, correct? So would you be planning to get into exports of that?

And also, could you just comment a bit on the margin profile on a broad basis on the segment wise, let's say, bar plate, the segment that has a higher margin compared to, let's say, refrigeration components. Just to get an idea on the product mix of the company.

Santosh Kumar Yadav: Yes, of course, bar and plate margin is slightly up. But as of now, we are focusing on domestic customers. So once we will like proven we have good revenue from domestic, then of course, we can able to pitch on export side as well or whatever we have same customer if they are using, of course, we are sending our company profile to them as well. So compared to our fin-and-tube, bar and plate, we are slightly up margin. And in terms of assembly, of course, bus air conditioning also, we are slightly good.

And these refrigerator components, we are slightly down compared to our fin-and-tube. And then complete HVC system also, we have compared to our fin-and-tube good margin because it's all parts we have like in-house manufacturing, especially sheet metal and then tubing and of course, then heat exchanger. So this is the idea.

Hoshang Hinduja: Just one last final question. Sir, you had mentioned in the call that in Q4, there will be a slight improvement in the margin. I mean, I understand currently due to the exports, there is kind of like the COGS have gone up. But can you just explain the reason why Q4 would be improved, like considering you mentioned Q3 would be flattish or muted according to that, that's the last question.

Santosh Kumar Yadav: So we are expecting our top line will slightly good compared to Q2 and Q3 on Q4. So then we will have of course, our operating leverage and export also, we are expecting slightly up on Q4. So that's why I said.

Moderator: We'll take our next question from the line of Achuth Pabbath from Duchan Capital.

Achuth Pabbath: In the investor presentation, you have mentioned that some new customers are qualified and you are planning to onboard them. So can you give a hint on from which sectors which customers are and how large are they?

Santosh Kumar Yadav: So actually, we have a new customer on all segments. So it's different. I think their revenue -- actually, I don't have this detail because bar and plate also, we have new customer, Bus AC also, we have new customer, then refrigerator component also we have new customer and complete HVAC system also new customer. And then, of course, fin-and-tube also we have new customer. So if like -- because some customers we shifted from HVAC as well. So total, I think we -- new customer last quarter built around 30 plus, including all segments.

Achuth Pabbath: Okay. And any big customer from the data center you're onboarding, sir? On data center...

Santosh Kumar Yadav: Yes, of course. From export side, North America, we have added one big customer as well.

Achuth Pabbath: Okay. And on capacity utilization, when can we -- I mean, by FY29 or FY28, when we can utilize the capacity completely? And what is the top 10 we can expect, sir, with 100% utilization?

Santosh Kumar Yadav: So next year, we are expecting 80%. And parallelly, we are going to open one new facility for South India in Bangalore. So that some capacity will shift to Bangalore as well. So 80% utilization also, we see almost full, then of course, we will -- additional capacity we will use from Bangalore only after next year.

Achuth Pabbath: So FY29, is it possible for you to tell what is the maximum top line we can do, sir, FY29?

Santosh Kumar Yadav: So to tell top line is difficult for me. So maybe I can maybe comment on capacity only.

Achuth Pabbath: Okay. So in FY29, what will be the growth in capacity, sir, with the current utilization?

Santosh Kumar Yadav: So next year, 80% and then you can consider 30% growth.

Moderator: Next question is from the line of Hemant Shah from ITI Mutual Fund.

Hemant Shah: So with -- there does not appear to be any problem with the size of opportunity with you. But clearly, can you just walk us through how you maintain your working capital cycle because last year of FY26, also, we saw a huge operational cash flow from operations negative. So which means that maybe pre-season, you built up inventories for supply in the first quarter, which is usually the best, if I get it correctly. So can you just walk us through on 2 parts, on the average working capital cycle and how does the pass-through of the raw material happen for each metal part or the plastics as the case may be. If you can just help us on that.

Santosh Kumar Yadav: Yes. So of course, our inventory in terms of -- if you see like compared to balance size or number of days is quite high because of multiple reasons we already explained, especially this BIS certification, but it's still -- we are expecting by end of this year, we can able to control our inventory because we started some monitoring and we started some SAP system to control the inventory so that we can -- you can see in our results by end of this year balance sheet.

And to improve our working capital, so we are working on inventory and we are second working on the factoring. So export side, we will use the factoring. And also for import side, we will have buyer credit for import. So that also will help to improve our working capital. So our finance department already started working on this tool as well.

So by end of this year, we'll be able to control our cash flow, working capital and inventory. And other side, what you said about material. So of course, quarter-on-quarter basis, we can able to pass on all things, including plastic, of course, we are not using plastic. But aluminum, copper and then this stainless steel and of course...

Hemant Shah: No, in the assembly, you don't use plastic, sir? In the complete assembly, there would be injection molding parts, right?

Santosh Kumar Yadav: No, we don't have much very maybe few or very small size of part because complete HVAC system, we are making by stainless steel or galvanized iron with powder coating and then fan, this is about our part with this surrounding. And of course, bus air conditioning main part is the FRP, not plastic actually. So maybe some small part of plastic will be there, but maybe not in percentage, very, very few, maybe only very small part.

Hemant Shah: Okay. Okay. And overall, as you make -- so is there some pricing power in new customers initially as you customize for them? Or there is no pricing power whatsoever after a particular time?

Santosh Kumar Yadav: No, of course, customization is there and part is critical being a backward integration with delivery and quality, we have some power, you can say, with some of customers and some of product.

Hemant Shah: Then why should the pass-through be in a volatile time, why should the pass-through be quarterly, sir? I just wanted to understand. Should it not be possibly monthly or 2 monthly?

Santosh Kumar Yadav: Actually, this is a price pattern actually. So because...

Hemant Shah: No, volatile times like these, possibly not non-volatile times, it can revert back to quarterly. But in volatile times, can it be monthly? Because if you see INR13,000 for copper and then going to INR14,000 in less than a month, then what do you do?

Santosh Kumar Yadav: No, no, you understand. But our mainly work is not project-based actually. So we have regular work with the same OEM. So -- and of course, each quarter revenue also almost same way or growing side only. So you have to follow some price contract as well because if there is a price dip also, then our customer will not ask.

So I think average is better. Otherwise, each month, we have to change the PO and it will be difficult to run the long way.

Hemant Shah: Okay. And secondly, could you also help us understand this BIS norms, to what extent are you seeing an increased offtake and all of that, meaning are we seeing a sort of clamp down on imports and more higher ordering for us? Is that what you have actually experienced?

Santosh Kumar Yadav: Especially for IGT tube, I think government maybe it's quite strict now earlier, they may be put on plane, but now on IGT side. So they allowed only 50% import you can buy compared to last year. But we have advanced license also because we do export also. So for export, we can buy without BIS or anything.

So this is easy for us, and we have time to close this advanced license for the next 3 years. But of course, now domestic play is also there. So government want to just Make in India support. So as a manufacturer, we have also follow. So of course, we will use for domestic supplies from locally and for export.

Hemant Shah: Okay. Great sir. I will come back in the queue. Thank you for that.

Moderator: Next question is from the line of Abhisar Jain from Monarch AIF.

Abhisar Jain: Congratulations for a good scale up in the top line. Sir, my question is that Komal mentioned that we are developing some products for the liquid cooling also for data center. So can you throw some light on what would be that product and how far we are from commercializing it?

Santosh Kumar Yadav: So of course, main product related to our is the heat exchanger only. So it's heat exchanger. So we are working on to develop this because some technology we have already for brazing that products is need vacuum brazing so that we have already -- which we are using in bar and plate heat exchanger. So we are working on to develop this, but it will take the next 1.5 years from now, you can say. So next financial also production will not come. But after next '28, maybe '29, we will have some revenue in particular from this product.

Abhisar Jain: Right, sir. And sir, if you can give an indication of how much does the content go down in a data center if it is liquid cooled versus air cooled because our products are more exposed to the air cooling part of the data center cooling mechanism. So is there any thumb rule or indication on that front?

Santosh Kumar Yadav: No, I think I can maybe try to explain again about this concept. So earlier also I have some confusion, but now we are more clear about liquid cooling and air cooling. So like earlier, maybe data, maybe storage in particular one room, they maybe store maybe 10 kilowatt, you can just assume. And this cooled by air liquid only complete room.

But now on same rack, we are can able to load maybe more than maybe 1,000 kilowatt of the data. And then this particularly data, they can able to cool by liquid cooling. But this room is still they have to cool by air cooling. So it means our product will remain same on indoor side. And outdoor side, our product will be there in terms of chiller heat exchanger or maybe dry air-cooler heat exchanger. So you can see outside, there will be no change. Indoor side, our product will remain same, but additional, this brazed plate heat exchanger will be added in CDO.

Abhisar Jain: Understood, sir. And sir, just wanted to know on this Thermotech Research Laboratory that we had started, I think, some time back that gives us the advanced testing capabilities. So how is that progressing? And how is that increasing your capability to do more complex products as we move ahead in our journey? Can you throw some light, sir, what are the capabilities that we are able to get from there?

Santosh Kumar Yadav: So earlier, we can -- maybe we are making heat exchangers as per customer design only, and we don't have any things to test to them. So if a customer asks particular some design, we can able to make and we can send to them. And then we are waiting for their feedback about approvals. So sometimes they said, okay, your product is not performing because of this reason, your pressure drop is not good or maybe capacity is not good. So now we can check the same product in our laboratory.

And if our product is performing in our laboratory, then we can able to say to the customer. Of course, if our product is performing, maybe you have some other problem. So this is the first concept. Second concept, we can give them some value engineering in terms of to keep same footprint, but we can change the geometry.

So in layman language, you can consider we can reduce the copper weight and we can match the capacity of the old version to keep same footprint. So then customer have some saving, maybe we can pass on some savings to customers, and we can keep some saving with us. So it means we can design new product for our customer.

And third one, we can test our individual product as well, like a complete HVAC system like as a business case, this is a third-party laboratory. But as of now, we have already started testing for our own product. But now NABL testing is going on. So we are expecting in next 4 to 5 weeks, we will have NABL certification for this laboratory and then we will go for AHRI certification. So then outside business will start maybe after 2, 3 months once we will have NABL and AHRI. -- but our internal testing, we already started since 2, 3 months back.

Abhisar Jain: Understood, sir. And sir, just the last question on the competition. So in our range of products and now obviously, you have expanded the range to HVAC systems and the product business which we have in refrigeration and AC -- so sir, how is the competition reacting considering everybody in the industry might be looking at our scale up and our growth. Who are the key

competitors that you are seeing already on ground or coming up for both coils as well as for all these products that you are making?

Santosh Kumar Yadav: So I think now we will have multiple competition for each product, different competitors. So bar and plate, of course, there are different type of industry. So then we -- mainly they sell to Indian Railway, and we are also trying to sell it to Indian Railway and then other off-road vehicles or heavy earthmovers customer as well.

So there is a different set of competitors. Still this bar and plate many customers is importing. So now we are trying to give contest to them as well. So they started slowly with us, particularly in bar and plate. Other than this refrigerator component also, I think 3 competitors is there, particular to that industry only.

And then bus air conditioning also almost 3 competitors there, particular to bus air conditioning industry as well. And heat exchanger, of course, is all about complete HVAC system also like particularly to the air cooler and then this rooftop complete HVAC system also different set of the competitor.

But honestly, we don't see to our competitor to like trying to particular on our segment, but we do our best and we do believe quality, cost and delivery. So if customers get these 3 things, then I think we can able to survive without any issue.

Moderator: Next question is from the line of Heta Vora from Boring AMC.

Heta Vora: Sir, I just had 2 to 3 questions. So firstly, in FY26, I believe we added some 70-odd new customers. So would you have the split of what is the revenue contribution from these new onboarded customers in our current revenue?

Santosh Kumar Yadav: So this data I don't have. Maybe you can write down the mail, maybe we can provide by mail.

Heta Vora: All right. All right, sure. And sir, secondly, in Q2 FY27, what was the revenue contributed from data center orders?

Santosh Kumar Yadav: Okay. So data center revenue -- so data center Q2 revenue contributed around -- yes, Q2 is INR116 crores. So INR116 crores.

Heta Vora: INR116 crores. And what was the same figure in Q2 FY26, same quarter last year?

Santosh Kumar Yadav: Yes, it was INR18 crores only.

Heta Vora: Okay.

Santosh Kumar Yadav: So totally, if you like see H1, H1, our '25-'26 revenue was around INR38 crores -- close to INR38 crores. And this H1 '26, '27 is around close to INR180 crores.

Heta Vora: So that's a phenomenal growth from this sector, sir. Are we expecting the similar line, the similar CAGR going forward as well from data center?

Santosh Kumar Yadav: Yes. As of now, yes.

Heta Vora: Okay. And sir, what is the execution time line of these orders? It is the same -- is it the same as a normal commercial AC orders?

Santosh Kumar Yadav: If we have forecast or if we have like continued customer running, then, of course, same time. But for new development, sometimes it took almost 6 months or 8 months.

Heta Vora: Okay. So we are also going ahead with developing new products for the customers?

Santosh Kumar Yadav: Like new customer, of course, we always open because we do always exhibition, especially in Europe and North America and now for India. So same portfolio, new customers, so we always welcome to our new customers as well.

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

Santosh Kumar Yadav: Yes. So thank you all to attend this call. And I think we try to clear all what you asked, and I'm quite confident for this coming next 2 quarters as well. So what we said, I think we will achieve top line slightly up. And of course, we control to maybe bottom line as well, especially we are quite good optimized by export, especially the data center industry and other products as well. So really thanks to all. Thank you.

Moderator: 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.