“Kirloskar Oil Engines Limited Q1 FY-‘21 Earnings Conference Call”

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MODERATOR: **MR. ABHISHEK PURI – AXIS CAPITAL LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY '21 Results Conference Call for Kirloskar Oil Engines Limited hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Puri of Axis Capital Limited. Thank you and over to you, sir

Abhishek Puri: Thank you Aisha. Good morning ladies and gentlemen. On behalf of Axis Capital, I'm pleased to welcome you all for the Kirloskar Oil Engines Limited Q1 FY '21 Earnings Conference Call. From the company we have with us today Mr. Sanjeev Nimkar – Managing Director, Mr. Pawan Agarwal – Chief Financial Officer. The call will be initiated with the brief overview by the management followed by the Q&A session. With that, I would like to hand the conference to Mr. Agarwal for his opening remarks over to you sir.

Pawan Agarwal: Thanks, Abhishek. Good morning everyone. This is Pawan Agarwal and thank you all for joining us on this call today. At the very outset, we hope and wish that all of you and your families are keeping safe and healthy. As all of you are aware the first quarter of FY '21 started with an uncertain and unpredictable environment with the proliferation of COVID-19. The company's performance was severely impacted by the lockdowns and we witnessed significant disruptions in April 20. When most of our businesses came to nearly a standstill, and our offices, depot's, warehouses, manufacturing locations remained largely closed. It was only May and early June that the company was able to revive its operations to a large extent.

The pandemic continues to rise in the country, and we have had approximately 12 cases across various locations in the company. Most cases are mild though and many have recovered and resumed work. Fortunately, we have not had any fatality due to COVID-19. KOEL and its subsidiaries have adopted protocols regarding safe running of plants and other places of business in adherence with the COVID-19 guidelines issued by the relevant authorities across various states. All workplaces have implemented safety and hygiene protocols like wearing face masks, physical distancing norms and workplace sanitation to make sure that the health of our people is assured. Continuous awareness of these protocols among employees has been carried out. These protocols are being reviewed regularly and updated based on the revisions and guidelines received from various authorities. Our understanding of the current scenario is that flexibility, adaptability and nimble footedness will take precedence over structured long term planning and execution. As we move into the sixth month of COVID gripped the nation, it looks like uncertainty will last for some time to come and all of us have witnessed the surge of lockdown across the country in July. This uncertain business environment will certainly impact our business performance. We will keep revamping our plans regularly and look for contextual solutions during these uncertain times. In parallel, we will continue to build our medium to long term strategic plans in the coming quarters as we look towards the longer term and more stable external environment.

I would now like to discuss our first quarter standalone financial performance:

Our first quarter standalone sales at Rs.315 crore was 58% lower compared to sales of Rs.755 crore for the same period in the previous financial year. Total revenue from operation, which includes other operating income, for the quarter stood at a little over 320 crore against nearly 764 crore in quarter one of the previous financial year. Total income of 325 crore for the quarter was 58% lower compared to 776 crore for the same period in previous financial year. In comparison to domestic business, international business was impacted marginally in quarter one our exports sales declined from 50 crore in quarter one of last financial year to 46 crore in quarter one of the current financial year. A good traction was seen in GCC countries in quarter one, as far as exports are concerned.

A number of cost control measures taken in the quarter helped contain losses. We missed positive EBITDA for the quarter by a whisker**.** Quarter one saw a negative EBITDA of 4.5 crore compared to 73 crore of positive EBITDA in quarter one of last year. We made a provision of Rs.6.5 crore towards doubtful debts in the quarter. We are reasonably confident of collecting these amounts from our customers in coming quarters. Had this provision been not made, the company would have delivered a positive EBITDA of Rs.2 crores in quarter one despite COVID. Loss for the quarter before tax stood close to Rs.15 crore as opposed to profit before tax of 67 crore in quarter one of FY ‘20. The DSOs and inventory days have increased due to significantly lower sales in quarter one. However, in terms of absolute numbers, these numbers have reduced significantly in quarter one compared to quarter four of last year. Our cash position has improved by 5 crore in quarter one, cash and cash equivalent was 329 crore as on 30th June 2020, vis-à-vis Rs.324 crore as on 31st March 2020.

At a consolidated level the revenue from operations declined by 53% from 901 crore in quarter one of FY ‘20 to 422 crores in quarter one of FY ‘21. Total income for the quarter declined from 914 crore in the previous year to 427 crores in the current year. All the three subsidiaries of the group delivered positive EBITDA in quarter one. As a result EBITDA for the quarter at consolidated level was 11 crore as against 84 crore EBITDA in the same period previous financial year. Loss before tax for the quarter was a little over Rs.9 crore compared to profit before tax of Rs.72 crore in quarter one of previous financial year. That’s all on the financial side.

In conclusion:

We would like to mention that every crisis is also an opportunity. We are looking inwards to improve ourselves by taking various measures focused on profitability improvement in making our businesses more competitive and we are looking outwards at the same time to continuously enhance our engagement with customers and improve on sales. We would like to assure all our stakeholders that KOEL continues to remain optimistic and confident amid all this turbulence. With this summary, we may not commence question and answer. Thank you so much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Just wanted to know how the LHP, MHP and HHP performance at a market level has been vis-à-vis the usual normal both in the first quarter and how July run rate has been?

Sanjeev Nimkar: Good morning Ravi and good morning all who has joined on this call this is Sanjeev Nimkar this side. Ravi coming to your first question related to different power generation segments LHP, MHP and HHP how have they performed. First one and a half month of this quarter was completely shut down situation. So whatever business we have done is fundamental in last one and a half months of this, May mid to June end. So that is the thing what we got in our hands. However, we indeed had MHP and HHP orders in hand when we exited on March. With an abrupt stoppage we had orders in hand so that came handy for us in terms of our execution during May second half and June second half. So MHP, HHP that order, the in hand orders were there. However, the orders booking was on a lower Side. But towards the end of June because of our continuous touch base with many inquiries as well as the existing customers for their training, for upgrading about the technologies and training to their internal teams, we had established digital connect with a lot many customers. And by the end of June, we observed that customers were extremely, rather you can say comfortable or acceptable to the digital way of closure. Because this was the first time these kind of capital goods buying customers were closing the orders digitally negotiating digitally, but the more or less settle down and the order board started kicking off. And then we found that LHP pent up demand in the second half of June, was shooting up. So, that's what we observed. So, initially MHP, HHP order board we had that we executed, the demand was not much. Then LHP started kicking up and end of the quarter we saw customers were comfortable in negotiating digitally and concluding the study. So, that has been the story.

Ravi Swaminathan: Got it sir. And June and July won't have been 60 to 70% of normal demand usual demand or how was it sir?

Sanjeev Nimkar: Yes. So, by the time we hit June and some extent of July, we saw demand at various percentages in different BUs. So, when it comes to power generation the demand was around 40, 45% in power generation and within that if you can say LHP was 60, 70% then MHP and

HHP was in 30, 35% kind of thing. And if you come to the other BUs the industrial demand came to around 60%. Roughly about that then agricultural demand for the Electric Pump side of the story was closer to 80% plus. So, that's the observations in the market.

Ravi Swaminathan: Got it. And July was also same run rate?

Sanjeev Nimkar: July almost similar, better than June.

Ravi Swaminathan: Got it sir. And industrial demand, do you expect any traction in the second half do you expect government spending to be better and that will lead to industrial demand. Is there any kind of chatter like that other QRC?

Sanjeev Nimkar: Generally end of July traditionally we have seen the industrial demand slowing down and then picking up end of September or early October that has been the traditional thing. But the last one, one and a half months, two months we have not seen that. So the industrial demand continue to be growing from wherever it has started picking up in the month of June. So we are not seeing that typical cycle of every year what used to happen So July, August looks to be on a better track and if the same trend continues maybe H2 can also be better on the industrial side. But we do we're crossing our fingers whether it will be touching the last year's level. We're not sure, but we will be better than the Q1.

Ravi Swaminathan: Got it sir. And my last question is with respect to inorganic opportunities you had mentioned in the PPT, you told we are close to 330 crores of cash and we are looking at inorganic opportunities at an attractive valuation. Can you give more flavor on it or is it like we talk about it once we have decided?

Pawan Agarwal: This is Pawan Agarwal. You are right, we are always on a look out for a right opportunity which is aligned to our existing businesses, and which is a natural extension of our current businesses in agri and pump and engines side. So we are exploring that and as you rightly mentioned, we have sufficient cash in hand. So we will talk more about it when it happens. We are still at exploration stage.

Moderator: Thank you. The next question is from the line of Apurva Shah from Phillip Capital. Please go ahead.

Apurva Shah: Sir, I am looking at the company for the very first time so pardon me like you find some questions very basic. Sir as a management, how do you look at the incremental growth at steady state level, so I'm not looking for the current situation where the overall economy is infected by COVID. But at standalone business, how do you envisage the overall growth rate over the next few years?

Sanjeev Nimkar: This is Nimkar here. So, that's a good question. See, the industries in which we operate primarily Kirloskar Oil Engines was a engine company. Then we expanded into various things nearby domain so agricultural thing. We were only agri engine companies, now we are giving electric pumps and that business is expanding very well. In engine side also we are traditionally giving diesel options. Going forward, you will see a lot of gas domain options coming up from the company side and further new technology options coming in. So, upgrading or keeping the company in sync with the customer expectations or has been the new mantra the company's management is adopting. The last few years, we have continuously proven that to the market we are leading the technology curve in whatever domains we operate in. So, going forward we expect there will be changes in the industry structure itself whether the power generation domain remains similar way or whatever way. Our industrial engine segment also shifting towards different way of working that is a part and parcel of evolution of the industry, but keeping pace of the technology requires the company will be ahead of the curve that's for sure.

Apurva Shah: Sir that's very commendable and thanks for the clarification. So, as I understood clearly the majority of incremental growth may come because of the product expansion or maybe the product category expansion itself right?

Sanjeev Nimkar: Absolutely right.

Apurva Shah: Okay. So sir in that case what can be so, in one of the previous question you answered that we will be looking for some acquisition and like, even though it's a very preliminary phase, but that may be like agriculture related. So what can be the other areas where you can find where that product offering is suitable to your existing basket and we can grow in a smoother manner?

Sanjeev Nimkar: Initially we thought we are engine company, but two years back we took a resolve internally and we have taken ourselves a vision that from engine company will be migrating to the energy company and what is the energy company and not a typical way the energy is interpreted by different industries or by the market. Right from oil to everything no, we have called within energy segment for ourselves that we will be operating in the domain of converting and conditioning of the energy. So, that's the segment which will be expanding ourselves. Even today, when we look at our genset domain so what are we doing there, we are converting mechanical energy or chemical energy through mechanical energy to electrical energy. So that's the conversion which we are doing. Tomorrow, we may look at with the reverse, get the electrical energy and convert it back to mechanical energy or vice versa. So, the conversions of energy from one form to other form will be the operating domain where we'll play. So, that's one expansion side and another domain what we have taken up for ourself is the water management domain. So that's another area where we are expanding that we want to be a leading water management solution company and we are approaching on that track.

Apurva Shah: Great sir. So sir we have in-house capabilities for this expansion or we need to acquire in terms of either technological tie up or some inorganic acquisition?

Sanjeev Nimkar: It will be combination of both. So we do have certain strengths with us because when we acquire LGM we got some strength in water side of the story, when we are expanding in the energy domain, we may have to take some external competencies with us, but with our current cash situation that should not be a problem. So, internally as well as externally we will be building the competency.

Apurva Shah: And sir, what kind of incremental CAPEX we require for our standalone business, I am not looking for any inorganic as of now?

Pawan Agarwal: This is Pawan Agarwal. So, for FY '21 we are looking at roughly about 70 -75 crore, in that range of CAPEX and these are all ongoing programs so, that is the number we are looking at.

Sanjeev Nimkar: Fundamentally the emission changes which are happening. So, there will be emission change which is on the way for the industrial engines and post that there will be emission change for the power generation side also. For those changes and also our gasification of our range. So, these are three top level projects which we are driving for the current businesses.

Moderator: Thank you. The next question is from the line of Deepak Krishnan from Goldman Sachs. Please go ahead.

Deepak Krishnan: So, just wanted to understand within the industrial business, how are the various sub segments doing and which sub segments do you see demand recovery happening quicker?

Sanjeev Nimkar: In the industrial space we have combination of the engines what we supply in the tractor domain and the engines what we supply into the off highways or you can call it a construction equipment and earth moving. So, out of this two all of you by now must be knowing that tractors is moving at an unprecedented pace, because never in the history tractor domain has seen that kind of growth and the same benefits are flowing to us as well. So whoever are the OEMs buying tracking engines from us that demand is ahead of even a normal demand so that's first, second coming to the off highway side that is construction equipment and earth moving equipment. That demand has started picking up now, two years back it had reached it's one of the peak. Now last year also was relatively lower compared to the year before that and then the COVID happened. So now, it has again started picking up. So we feel another three months down the line. It should go back to last year's level at least.

Deepak Krishnan: Thanks for that sir. And in the power gen segment like you kind of indicated that LHP is doing better than MHP and HHP. But are there any particular end markets that are seeing demand recovery faster than the other, anything specific that you can highlight?

Sanjeev Nimkar: Actually, there is one clear indication coming is in data center side demand is recovering faster which his actually a part of HHP. But it is a segment of HHP, which is picking up. Then second domain we're seeing a good traction is warehousing and logistics domains are moving at a much faster pace. So that's the second one, third we are also seeing lot of green and brown expansion happening into the pharma and FMCG sector, consumer goods company. So for that expansion, also the gensets are required, so that demand is also coming up. So, these are some green shoots which we are seeing.

Deepak Krishnan: And you would expect demand to come back in three months to industrial or would it take a bit longer than that?

Sanjeev Nimkar: Power generation may take longer.

Deepak Krishnan: Okay, may take longer. And any specific postponement of the emission norms or they say it will remain as it is because there is no postponement due to COVID?

Sanjeev Nimkar: We are on the right track, there is already the announcement of six months extension for the industrial emission norms which were supposed to get executed on 1st of coming October. Now it will be 1st of April, so that's the government circular is out on that.

Moderator: Thank you. The next question is from the line of Manish Goel from Enam Holding. Please go ahead.

Manish Goel: I had couple of questions, one is related to the resolution which we are looking to pass is the change in MOU to expand our business segments. So, if you can highlight, which are areas which we are looking to kind of enter or expand going forward number one, number two other regulation increasing more funds into Arka capital as we are floating a rights issue. So, just want to know how much money we are looking to invest more and second, just wants to know why like, it's already well capitalized. So why are we looking to kind of infuse more liquidity and probably not leverage to the balance sheet overhead?

Pawan Agarwal: So, let me address the second question first. On Arka, this is Pawan Agarwal, Manish. Yes, you are right, there is a right issue and the offer is open and the offer is open for the period 27 July to 10th of August;, as we had mentioned earlier, we are keeping a close watch on Arka's performance. The board has been regularly reviewing the performance of Arka and this matter came up for discussion in the last meeting as well and this board meeting also. The performance of the company is improving, the company is doing good. Quarter one has been substantially better compared to last year and the company is moving on the right track despite COVID related disturbances in the market. The board took review of the business plan of the company for FY '21 and beyond. And this business plan was again revised a little bit downwards, given the COVID uncertainty, still, the scenario looks very optimistic. Quarter one results are a testimony to that optimism. We are looking at investing Rs.125 crore in Arka in this year. It will be some 11.34 crore shares at the rate of 11 which is Rs.1 premium included, and the money will be infused in three tranches, one on application, then there will be first call and second call i.e. Rs. 4, Rs. 3, Rs. 4 per share respectively. So, at this moment initial tranche of 45 crore would be given to Arka and then first call and second call will be taken care of at subsequent period depending upon the business performance and how Arka does.

That's about investment, as far as the capital structuring is concerned they are raising debt also from the market. In fact they have raised about Rs.180 crore debt from the market. They got their debt rated also from CRISIL. So, they are in the process of raising further debt also. So, there will be a reasonable balance which will be maintained between equity and debt in Arka.

Manish Goel: So, ideally what is the ratio you're looking at in terms of what kind of leverage you're comfortable with in Arka capital?

Pawan Agarwal: So, the detailed intricacies of Arka we may not be in a position to talk about here as we have mentioned earlier also it's a separate management team led by Vimal Bhandari, the CEO and Executive Vice Chairman. If you guys need further information, we can certainly have a independent call with Arka management team.

Sanjeev Nimkar: Manish coming to your first question. The clause change, you are aware that the last three, four years we are actively engaged in to power car business with railways.

Manish Goel: Sorry?

Sanjeev Nimkar: While we are doing this business with railways, we also observed that railways themselves are undergoing technological change. So, from a normal power car which goes in one train, one rack you can say, there are two power cars going. So, now they are internally evaluated and almost finalized the plan of going with a HOG that is Head on Generation as a new way of managing the train. In that case, the power car requirement will be only one. So, whatever we have planned the business on that so, we are clearly saying the business may be impacted because of the railway changing their own technology and their expansion plan, at the same time it also opens up opportunity urge to look at beyond the power curve within the same train. And we looked at coaches, then we found out that having established our relationship with all the approving mechanism and authorities at railways, so why not to use that competency to expand our portfolio and then we found that along with gensets they may be requiring the transformers which are used in the coaches and which is a far more expanding business. So, we felt that yes, we can provide a high quality, high design transformers. So, at the backend side, we have evaluated at the right suppliers and right mechanism for that and we will be expanding on that. So, that was one of the domains which we felt which was not explicitly covered up in our earlier object was so we felt this opens a window of opportunity for us. Not only that, in power generation side, we are supplying gensets to the market, but at the same time, whatever is happening into the storage technologies is also a substitute for the gensets in maybe LHP side or to some extent even the MHP side. So, tomorrow or rather in coming times we're already have plans with us to provide solutions either the hybrid solutions or standalone solutions into the storage domain. So, that was also not explicitly covered up in our earlier object was so we felt it's the right time to expand this domain, even at that site. Similarly, at the core we are very clear that one will on the power generation side leading into the energy conversion and conditioning company and from the electric pump side leading towards the water management solution company. So this object was changed was fundamentally on this time. So, that was the thought process on this object.

Manish Goel: Okay. So just to clarify, within railways basically one is that we are probably looking to for our newer technology and so would it entail any acquisition of external technologies or will it entail any more CAPEX number one, and number two, just to clarify. So when you said we want to expand our we probably looking into building the entire coaching is that right or just if you can say?

Sanjeev Nimkar: No, the railway is expanding the coaches for themselves, every coach needs transformers. There are 3 types of transformers, the way every train needs a power car, now earlier two quarters was needed for one train. Now that will come down to one power car per train, but at the same time there are let say 12 or 14 coaches per train. Each coach needs transformer. Now, with that also we will be controlling the quality and the design aspect of that, so we have then, we are into the process of closing the right suppliers for that, where we will be controlling the policy and demand.

Pawan Agarwal: So no major CAPEX in this regard.

Moderator: Thank you. The next question is from the line of Ankur Sharma from HDFC Life. Please go ahead.

Ankur Sharma: A couple of questions. First, on the power gen side, one specifically on the real estate segment, if you could just talk about, I would assume demand would be weak but, how are you seeing that over the next few quarters and also, how big is that in our total power gen sales and have you heard of any cancellations or deferment from either the commercial or the residential real estate?

Sanjeev Nimkar: This is a very, very important question you touched upon. And as earlier question also I replied that power generation will take little more time than others to recover and this is precisely because the construction segment is expected to recover relatively slower compared to other services sectors are recovering like IT, ITFS kind of segments are already recovering, manufacturing sector also started recovering, data centers are recovering, but construction because of the big labor migration and overall market sentiments are on a slower track. So we'll take time but, coming to your question in terms of any major cancellations will have not seen any cancellations whatever order we had, but there are cases of deferment because of the financial management of some of the customer. So, one month, two month or to some extent three months of department we have seen customers have paid advance to us but they have asked that the deliveries they will take in a differed way. So, yes that is observed.

Coming to how will be the recovery, what we will see there, I have a little different thought on this particular thing, it is some demand will be definitely there. But who will cater this demand will be the big question because it is not a question of just a normal situation that there is a demand and whichever brand gets the order will be able to supply. We are seeing quite a good disruptions in the backend side. A lot of MSMEs suppliers or a lot of even the proprietary suppliers, their factories are undergoing a lot of crisis on a daily basis different kinds of prices coming in, which is disturbing the supply chain. And KOEL the way we have established ourselves as one of the reliable suppliers in the industry for the last six, seven years we have edge here so even if market may not expand or market may not come back to the normalcy. But within available market, we may have aged if you compare to some of our competitors that we may be able to manage supplies better. We have proven that in the water management side in last two to three months. So relative to our competition, our supplies were far superior and better, and we are proving similarly in our industrial and power generation business also. So market recovery and construction side, I expect on a slow track but our recovery may be little ahead of the curve that's what I anticipate.

Ankur Sharma: And sir if you had to breakout the end market wise sale side either for you or for the overall powers gen industry, how big would say real estate and industrial segments would be individually?

Sanjeev Nimkar: With power generation?

Ankur Sharma: Yes, within power generation. How much would industrial and real estate be?

Sanjeev Nimkar: Within power generation industries generally is around 25% and construction, the real state is around 35%. See, eventually everything is real estate for power generation. It is that when we talk about real estate it is fundamentally the residential side of it.

Ankur Sharma: Okay. And secondly on this whole view CPCB 4 norms. Something was mentioned the industrial side, the power gen side by when do you think these norms could come through. And more importantly, because we hear about different figures from different players in terms of the cost slash price increases needed. So our understanding is that this increase will be much higher for players who are going from mechanical to the new norms and lesser for those, those who are going from electrical to the new CPCB 4 norms. If you could just throw some color on what's your view, both on the timeline and on the cost slash price increases?

Sanjeev Nimkar: Yes, you are right industrial I just addressed that it is forward by six month and we are sure the government will stick to that, but further we don't anticipate. So, 1st of April will be reality for industrial. Coming to CPCB +4, as of this moment the indication is 1st of July 2022. So, that's what, there is no secular out, but this our unofficial interactions or whatever you can say. So, this is not to be published kind of thing, but you asked certain days and this is our anticipation, and the circular is not out and we do not see this debt to be costing further, because we do not see the need for that. So, there is a special time available. Coming to the cost aspect of it, yes compared to what happened in **2020** the cost rates compared to this time, the cost price will be significantly high because barring up to 20 kVA, so everything beyond 20 kVA will virtually move to the electronic situation that is CRDI kind of a technology, everything will move. So, there will be significant impact on the cost structure of it. But, again, I'm anticipating the question how much will it impact to the size of the market, the answer is it may not impact the size of the market. Even if the cost impact is high the size of the market will not get impacted much.

Ankur Sharma: Okay. And just a last question sir, would be on the volumes of the generators sold and I'm just going back in time. So in FY '20, what would have been the industry size and any estimate of what you believe could be the overall industry size for 21, obviously, I'm expecting a decline, but what kind of decline would you expect if you had to give a number?

Sanjeev Nimkar: FY '20 itself was a decline power generation side in terms of numbers. So close to 120,000 odd in FY '20 and I anticipate it will be 100,000 end of the year for FY '21.

Moderator: Thank you. The next question is from the line of Sandeep Tulsiyan from JM financial. Please go ahead.

Sandeep Tulsiyan: So, the first question is from the power tiller side, there was a recent notification stating power tiller imports to a much lower quantity than what the companies are supplying earlier. So, how does that change the competitive dynamics and what does it mean for Kirloskar if you can just give your views on that?

Sanjeev Nimkar: Are you referring to the recent government circular on panning the challenge import on power tillers?

Sandeep Tulsiyan: Yes.

Sanjeev Nimkar: Okay. So, we have gone through that circular, we have studied it very, very carefully. Incidentally, it is not impacting us beyond like 2 to 3% kind of extent, not beyond that. So we are relatively safer on that side, but it is definitely going to impact some of our competitors. That's our assessment right now and at a broad level we feel around 25 to 30% market may get open up for anybody to grab and we have equal opportunity to grab that market. So, going forward we feel we will be able to grab some share out of that and whatever, despite COVID last three months, our story on power tiller is extremely positive. So we are able to cater the market demand whatever is there. In fact power tiller market is growing and we are able to cater that growth and we are also having good institutional orders with us. And going forward with this as a pillar is executed in great and spirit, I wouldn't be surprised at least 5, 7% additional market share we get further.

Sandeep Tulsiyan: Right. So, sir when you mentioned 2, 3% for KOEL, means do we have some import component that we are trying to localize or are there some particular models which we import and sell what is that?

Sanjeev Nimkar: We do have quite a good components which are imported for power tillers, but they do not fall under the categories what are notified. So, only that 2 to 3% some electronic component is falling into that category and we have quickly aligned the local stores for that. So, down the line two, three months even from that 3% we will be out of it.

Sandeep Tulsiyan: Understood. And within second question was on the industrial segment where we've reported a decline of 56% if you could break this up how, it was within the construction equipment and tractors because our commentary on tractors was relatively much more positive.

Pawan Agarwal: This is Pawan Agarwal. So in industrial overall as you rightly mentioned year-on-year decline is 56%, tractor has declined by 48% and the off highway business is down by 60% year-on-year. Within segment if you see, the construction equipment about 80% drop year-on-year, earthmoving 83% and fluid handling the other significant material item is about 64% down. So, that's the construct of industrial business.

Sandeep Tulsiyan: Okay. So, tractors 48%, off highway 60% decline, construction 80% and fluid handling 64%.

Pawan Agarwal: So, when we say other than tractor then, it has construction, earth moving and fluid handling these are the sub elements.

Sandeep Tulsiyan: Okay, got it. And, sir I just needed some more numbers if you could help me with, what was the DV series sales, volume and value for the quarter and it's share comparable numbers for last year also?

Pawan Agarwal: Yes, just a minute. So, this quarter we had 11 numbers, quarter one financial year '21 and last year quarter one number was 26 this is we are talking about 750 kVA upwards.

Sandeep Tulsiyan: Okay. And so the numbers that you have shared earlier with us is about 282 numbers last year so that is the entire DV plus SL**?**

Pawan Agarwal: So, we have other DV series also, this is UHHP segment we are talking about 750 kVA upwards. So, overall DV series quarter one we have 61 no's this year, corresponding number for previous year is 282.

Sandeep Tulsiyan: And in terms of value?

Pawan Agarwal: Value this year would be about 11.3 crore and previous year quarter one was 48 crore.

Sandeep Tulsiyan: Got it and also if you can share how much was the electric pump set sales in the quarter, within the KOEL brand?

Pawan Agarwal: In KOEL electric pump set sale in quarter one was 18 crore.

Sandeep Tulsiyan: Got it. Sir and my last question is, I know a little difficult but do you have any guidance in terms of sales growth for the current financial year based on whatever traction that we are seeing currently from customers or whatever order booking that you have been able to do right now?

Pawan Agarwal: At this stage we are not in a position to provide any guidance on revenue for the year. This is highly volatile time. We'll have to wait and see.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir, I have two questions. First, can you share with us what is the backlog that you have on the large engine order side and to what extent we expect the execution in this category to ramp up in the next few quarters given that 1Q has already been pretty healthy. And second question is related to the PG portfolio where you mentioned that you're looking at alternate fuel sources and classification and opportunity. So here in the existing portfolio anywhere do we have gas based engines with us or entire technology side. And in your view what could be the kind of timeframe required by you to make this kind of capability in India.

Sanjeev Nimkar: Okay. We heard you question a little bit missing some words here and there, but I got the gist of it. So, I will answer your second question first which was related to the transmission and whether we're tie up with any technology or what is the timeframe. First thing is we are running this program of gasification of our engines for last more than three, four years we had kick started that and as we speak, we are supplying some long blocks. That means the basic structure of the engine to U.S. market that for a long time in the last three, four years we have been doing that so and it's well accepted there so they take the long block from us and they make an engine of it and they use it, but long block is like kind of a thing is 80% of the engine kind of a thing. So we have developed in-house capabilities to manage that. Now looking at our domestic market, we've felt it's a time that we need to start offering the PNG or the LNG gas based options to the domestic customers, because in our country five years back, the footprint of gas availability was not that good. But government has taken so many good steps to enhance the gas footprint and next five years this footprint will be enhancing further. If that is happening, then it's time that we should be offering good gas range. So starting as early as next quarter, we will start offering some ranges in the domestic market and over the next one year we will be completing the major part of gas options for the country here domestically. And the entire technology is indigenously developed by our engineering team, our R&D team and we are proud of it.

Renu Baid: Sir what is the kind of **growth** that you are expecting on the gas based engines versus conventional diesel gensets in this category in which are launched?

Sanjeev Nimkar: It will vary from node-to-node, but it can be anyways up to from 5% to 10% not beyond that, but customer will get enormous comfort, because the biggest pain for lot of customers right now, especially the residential societies or the commercial complex is bringing the diesel and tracking the diesel to be put in there. So, the moment you shift to the gas, you can just connect the available gas pipeline there to the genset and you are done for it. So that's the biggest comfort this brings in and efficiency wise, we should be also coming closer to the diesel genset efficiency. So customer will be and also the operating CAPEX for customer will be on a low side because still in our country, the gas prices are significantly lower compared to the diesel prices, especially what diesel has moved in last one, two months. So it will be a good offering to the customers.

Renu Baid: Right. Sir would this also implies that as we move towards the new CPCB 4 norms in the next two years for diesel gensets, the gas based gensets could be a better option and will turn out to be a better in more competitive and to the new cost structures for diesel gensets?

Sanjeev Nimkar: Not necessarily, because even gas will also follow the initial norms, if you are using gas it does not mean there will not be emission norms. There will be emission norms, so we will have to because it will be different than what are the emissions norms for let say diesel gensets, who will be adhering to that. And customer will have a choice because although I am seeing the footprint in the country will be improving but in a best of the scenario 20, 25% customers will have access to continuous gas even down the line four years. The remaining will have to depend on diesel as the available fuel. So, that way the customers will have to look at it going forward. Sorry, coming to your first question on the large engine size, last quarter we have booked good order so around 35 to 40 crore order we have booked for the large engine size. And going forward we will be executing this year as per the initial operations plan we have taken for ourselves, so large engine more or less remains intact despite COVID.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Sir, just dwelling on the question on the power generation side, if you could help us. So, you mentioned about 30 odd percent is the real estate part and about similar quantum is on the industry side. Infrastructure is an area, I felt is a bit more optimism that you are alluding to and we spoke about some metro projects also in our presentation. So, how are we seeing the demand from the infrastructure side and what, because your expectation for the market is about 20% drop for the year end, whereas for the quarter we have seen 75% drop. So, what areas are you seeing that can actually lead to the ramp up on the month-on-month side, and that will lead to an overall improvement in the subsequent months and quarters?

Sanjeev Nimkar: So, coming to your first point that is the infra demand. We clearly see, initially we thought there will be impact on the infra side of the story because last three years, the infra story for the country, especially with the government spending has been very good. Rather it was intact story. So with COVID and this happening we were all the corporates were expecting that infra will get impacted, but government has come back aggressively and committed to the market that they will not allow infra funding to shoot up. There can be a minor slowdown but not majorly slowdown there. And we are seeing that happening, that means the infra story about the road expansions in the country and ports and all these things, ports, airports and roads, so that story is recovering fast and by the end of the year, we'll see it will be as good as coming back to the complete normalcy. So, that will help in driving some of the demand on this side, another story is the LHP side of the story. So, 15, 20 kVA to 30, 40 kVA that range, so that we are seeing a good traction and as I was mentioning that supply chain disruptions for competitor can also give us the opportunity to grab better share there, not only that the demand for tractor and this is going up. So, some of our competitors are not able to focus on the genset side that also we have observed, because the people who are majorly from the tractor segment, they are not able to supply some engines into the LHP, MHP demand. So they are not able to cater, these are the observations so that will also continue to grow. And correctly MHP, HHP is on little slow track, we expect ones the sentiments starts coming to the site so a lot of projects which were going on a slow track, they will come for the closure, the capital projects will come for the closure and that will give us in Q4, the demand for MHP, HHP will be back to normal.

Bhavin Vithlani: Understand. The other questions is on the export where the situation is far better than the other areas. And, if you could develop a bit more because you spoke about #A, some firefighting related engines that was one opportunity and other opportunity that you were talking about is exports on the construction equipment and the OE site. So, it will be useful to understand the update on the export side and how do we see over a three year period, let alone what we are seeing currently?

Sanjeev Nimkar: So, last quarter we had quite a good order board when we stopped for COVID, that help desk to supply that and we have executed all those order good. Not only is that, during the quarter and also currently our order booking in international market reasonably okay. We are also seeing some of our OEMs in the international market and customers also de-risking China so some of the orders are getting diverted to us and we're getting benefit out of it. Our strategy on firefighting side especially SMUL has been working exceedingly well in all markets. So, right now, we have started getting orders from many, many customers from different geographies. So, that story is not only intact, but this is giving us results beyond our expectation. Our story on the industrial side that we have given some mining solutions in some market has also been very good. But some order booking is stopped because of COVID because those mines are also stopped. But we are sure once the operation starts there it will come back to us. So, overall we feel for the next three years, growth story for KOEL will be minimum double digit plus growth year-on-year.

Bhavin Vithlani: Understand. So do you have a target, this is my last question. So, do you have a target in terms of percentage share of the business over a three years that you're working with?

Sanjeev Nimkar: We had, but now with the current fluctuations the way it is happening that remains missing but the first initial milestone we would like to look forward to is double digit percentage of the total turnover should come from exports in the short term vicinity that maybe in the two, three year's time frame.

Moderator: Thank you. Due to time constraints, I now hand the conference over to Mr. Abhishek Puri for closing comments.

Abhishek Puri: Thank you Ayesha, we would like to thank the management team and Mr. Nimkar and Mr. Agarwal for providing us with this opportunity to host the call. And thank you to all the participants for the interactive session. Mr. Agarwal do you have any closing comments?

Pawan Agarwal: I would like to thank everybody for their continued interest in KOEL and we look forward to strengthening the business. Thank you so much.

Sanjeev Nimkar: Thank you.

Abhishek Puri: Thank you, sir.

Moderator: Thank you. On behalf of Axis Capital, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.