"Kirloskar Oil Engines Limited
Q1 FY 2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Kirloskar Oil Engines Limited Q1 FY 2022 Earnings Conference Call hosted by Antique Stock Broking 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhirendra Tiwari from Antique Stock Broking Limited. Thank you and over to you Sir!

Dhirendra Tiwari: Thank you. Good morning ladies and gentlemen. On behalf of Antique Stock Broking Limited, I welcome you to 1Q FY2022 post results conference call of Kirloskar Oil Engines. To discuss results, I am glad to have with us today with Mr. Sanjeev Nimkar, Managing Director and Mr. Pawan Agarwal, CFO of the company and along with other senior members of the management team. Now I will hand over the call to Mr. Nimkar for initial remarks following which we can take the question and answers. Over to you Sanjeev! Thank you.

Pawan Agarwal: Dhirendra thanks. I will do the opening remarks. This is Pawan Agarwal and good evening ladies and gentlemen. I am the Chief Financial Officer of the company. On behalf of the management of Kirloskar Oil Engines Limited, I welcome you to this conference call pertaining to the results for the quarter ended June 30, 2021. Present with me on this call are our Managing Director, Mr. Sanjeev Nimkar, Mr. Rahul Prabhudesai who heads the Strategy Function at KOEL, Mr. Amit Gupta, Deputy CFO of ARKA Fincap Limited the subsidiary engaged in the financial services business and Ms. Mayura Bhusari who leads the investor relations at Kirloskar Group. We hope you and your families are staying safe and healthy in these challenging times.

We wish to start by qualifying that during the call, we will make forward-looking statements and these statements are considered in the business environment we see as of today and therefore there could be risks and uncertainties that could cause actual results to vary materially from what we are discussing on the call and we would not always be able to update on this forward-looking statements.

Q1 FY2022 saw a devastating second wave of COVID-19 which had a huge impact on our lives and health of our near and dear ones. The operating environment has been extremely challenging in this period, but since the lockdowns were more localized and staggered the business impact was lower this time around.

Once again our entire team stepped up beyond their call of duty and delivered a strong performance. We want to thank each and every member of the KOEL family for their unstinting dedication and commitment during these difficult times.

Q1 FY2022 performance is a testament to the resilience of the organization with continued focus on productivity and efficiency enhancement, we were able to counter very high commodity inflation and protect our margins to some extent. We remain committed to drive cost reduction and operational excellent at KOEL. Our operations and supply chain teams have done an excellent job of meeting the challenges and ensuring smooth supply of products in spite of mobility restrictions during the quarter.

We are pleased with our performance during the quarter especially when one considers the challenges one had to operate in given the second wave. While large part of the quarter was disrupted owing to the second wave of COVID we did see things improving by the end of the quarter following relaxation of restrictions in the light of ebbing of second wave. Recovery in the month of June led us to post a decent set of numbers for Q1 even in these times of adversity.

Volumes during the quarter were understandably low compared the preceding quarter given the impact of second wave of pandemic. Also the EBITDA margin declined sequentially owing to lower sales and higher input prices. As indicated in the earlier calls the prices of most of the input materials namely steel, copper, aluminum, etc., have been trending upwards over the few months in turn impacting the margins.

Furthermore, lower capacity utilization levels during the quarter also contributed to the EBITDA margin compression. Overall, the company is continuing to focus on strengthening the Kirloskar brand, building scale, expanding distribution and product range, driving innovation and digitization and strengthening the organizational capabilities at all levels. We believe this will help us drive strong growth across all our business verticals and capture the opportunities in the market place while we build the organization for the future.

Going ahead we remain positive on the business outlook and believe outlook and believe the growth in housing, healthcare, industrial and infrastructure sectors provides a good visibility in terms of demand for our products.

Now I come to financial performance of the company. Our Q1 standalone sales at Rs. 639 Crores was 103% higher compared to sales of Rs. 315 Crores for the same period in the previous financial year. All business divisions except large engine what we call IPS have delivered significant growth on a year-on-year basis. The outlook for the large engine business for the remaining part of the financial year is positive on the back of a good order book position.

Our export sales in the quarter increased to Rs. 58 Crores compared to Rs. 46 Crores in Q1 of last financial year, though as a percentage to sales it declined from 15% to 9%. Good growth and demand was visible in power generation and agriculture segment in international markets.

The extended credit period enjoyed by the company from many of its suppliers, vendors and service providers during the second half of the last financial year has gone back to standard credit periods in Q1. Also due to COVID led restrictions at various places and disruptions at some of our suppliers and customer locations and in anticipation of potential third wave we have built little extra inventories in Q1 to ensure minimal business disruptions. This has led to additional investment in working capital during the quarter, but this is only a temporary phenomenon and going forward we do not see major issues on the working capital side. During the quarter, the company has further invested Rs. 50 Crores towards share capital which includes share premium also in its 100% subsidiary ARKA Fincap Limited.

At the consolidated level sales improved by 95% from Rs. 415 Crores in Q1 of last year to almost Rs. 810 Crores in Q1 of FY2022. The EBITDA for the quarter was Rs. 83.5 Crores as against approximately Rs. 11 Crores in the same period previous financial year.

PAT for the quarter for the group was a little over Rs. 32 Crores compared to a loss of approximately Rs. 7 Crores in Q1 of the previous financial year. At the segment level during Q1 all the segments delivered growth in revenue on a year-on-year basis.

The electric pump segment grew by more than 68%. Other segment which includes farm mechanization and tractors, spare parts and oil business grew by 19% and the engine segment saw more than 112% growth on a year-on-year basis.

That is all on the financial side. With this summary, we may now commence the question and answer session. Thank you so much.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Good evening Sir. Sir I have three questions. The first question I will come on the operating margin side. Clearly, as a gross margin we have seen almost 400 basis points compression so if you can help us highlight this Q-O-Q compression in gross margins as a combination of sales mix commodities and to compensate for this what is the kind of price actions we are taking and how should we look at the outlook of margins reverting back to, at least the gross margins reverting back to 35% levels?

Pawan Agarwal: Thanks for your question. Yes there has been a severe impact because of the input prices increase as I mentioned in my opening remarks. Roughly about 2% to 2.5% impact is because of the input cost increase, which we could not pass on to the customers in the market place in Q1 and probably it will get partly recovered in July and August because there is always a timing difference and about 1% impact is because of, a little less than 1% impact is because of the mix change. Now going forward also we expect because the input prices are not coming down to the levels of the last year. Still either they are flat or they are increasing, in some of the cases it is increasing. We expect about 1% impact could be there in Q2 as well. Of course, it is subjects to many factors but as of now the visibility that we have it appears that about 1% point impact could be there in Q2.

Renu Baid: Secondly on the domestic PG market you did mention that recovery seems to be setting in back from June onwards so if you can help us give some color within the Power Gen portfolio how is the performance for HHP and Ultra High HP engines and how is the demand outlook? Are we now looking at the market getting to normal and in general by when do you expect the demand momentum to come back to pre-COVID levels as start inching upwards?

Sanjeev Nimkar: Renu, this is Sanjeev Nimkar here. Good evening ladies and gentlemen to all who have joined on this call. I think this question, power generation demand right from April we had seen for this year very good demand. So it started actually from the month of January itself so that quarter was also good and subsequent quarter, in spite of this May debacle, overall order booking and demand was good. It is continuing in that way. In fact, the COVID related opportunities which had erupted in the market like oxygen plants coming up very sharply, very high investments happening on that front, COVID hospitals again coming back because there was a time that COVID hospitals had come and then dismantled all but again they are coming back because people are anticipating some disruptions of wave three or something. But preparation is much better that is visible and that is helping the PG business. Coming to your question is it looking normalcy in PG we are sensing the normalcy in PG. Even the enquiry bank is moving reasonably good on the power generation side and a little bit touching to your earlier question on the price front, yes there is a gap when the commodity prices go up at a backend side and how much time we can pass on because we have continuous quotations and order book of one to one and a have months kind of thing so it takes time to pass on to that but it will eventually happen and there will marginal impact in this quarter and maybe we will cover up going forward in the next quarter on the price front but happy to report here that as the leader in the segments whether it is power generation or oil industrial engine side or even in the electric pump side, we took lead in leading the prices also in the market. We were the first to push the prices up because we felt unless the leaders take these actions the industry will not move ahead. I am happy to inform that overall industry in all segments with little bit plus and minus has responded positively to push prices up in the market.

Renu Baid: Lastly Sir when we look at the broad base industrial equipment demand, your comments on construction and acceptability of the BSIV range of products has been very encouraging so should one look this pie improving going ahead given that infrastructure activities are picking up so comments on this would be helpful.

Sanjeev Nimkar: You are absolutely right. Despite of this second wave and whatever we have gone through last one year overall government efforts on the infra we are seeing are sustainable. We are not seeing they have increased beyond a level but they are sustained so that is also is a positive thing and that is helping on our industrial engine side. In fact, what has happened in this domain, one needs to understand this that the prebuy has happened in the month of February and March and this time in the emission changes the government has given almost six months of window to sell out the old engines as long as they are not produced you can sell it. Incidentally, the first two to three months that is April, May and by mid of June all those earlier engines vanished from the market and the demand for BSIV increased. So that is a very positive movement in this industry and that demand continues to be good and our production well accepted in his market. So on the industrial engines front our outlook for this quarter and going forward till the end of the end of the year is positive. We will be on our targets and on our plan. In fact in this domain even the tractor market is also doing very well. That demand also continues to be good. That is a positive story also.

Renu Baid: Thank you so much and I will come back with more questions. Thank you.

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

Sandeep Tulsiyan: Very good evening Sir. I am going to ask a couple of questions. I am going to be critical to the performance so please bear with me? Firstly, on the PowerGen side I have noticed a performance was much meeker versus our competitor, we have declined in a much sharper way, so have ceded the market share or has competition become more aggressive in terms of new price discounts if you can share some color on that please?

Sanjeev Nimkar: Sandeep, what data points are you referring to is it published report or something you are referring today.

Sandeep Tulsiyan: No Sir. It is basically the market leader is also reported the results for Q1 where their PowerGen segment decline on a sequential basis was almost flattish, it was not much of a decline while we have reported a very sharp decline of about 25% in the PowerGen on a sequential basis.

Sanjeev Nimkar: On a sequential basis you are talking about because we had tough time in the month of May only but after that in the month of June and even going forward in July also we have recorded reasonably. I am not too sure. I will be looking into the debt of whether we have lost some share. It is momentarily impact can come because in the month of June also we pushed the price hike in the market. We took the lead to push the prices in the market. Whenever it has happened in the past also that whenever we push the price two months to three months time there is a hiccup in terms of our sales and again eventually it comes back so that is what we have observed. There may be a momentarily blip but if you ask me I am not worried and perturb on power generation at this point.

Sandeep Tulsiyan: But there is no big disruption in terms of aggressive discounting?

Sanjeev Nimkar: Sandeep our order book on the medium horsepower engines is reasonable. I am not able to supply actually. To that extent it has gone up.

Sandeep Tulsiyan: Understood and second question was on this new opportunity slide that you have shared in the presentation actually we have been speaking of two to three different business areas like we have been speaking in the previous calls about bio-waste management solutions, the transformers in railways and now we are talking about some battery based backup so it gives an impression that there are too many areas where the management so amongst these five to six areas which you mentioned what would be the top focus areas and if you can share the opportunity size between water solutions and bio-waste, battery based backup and other things?

Sanjeev Nimkar: First, is water solution as a segment we are highly focused so there is no question, so this domain has already crossed Rs.1000 Crores plus for us so it is a definitive focus area for the organization. In fact in water solutions, we are going into the allied domains so our acquisition of Optiqua which we reported last time that is into this domain of allied products that is flat cables, column pipes and similar domains we are getting into so that domain our focus will continue. Coming to the next bio-waste what we reported last time, and this is the month we will be launching this product so we are ready with everything that was required to be done and we were waiting for our new brand refreshed campaign which has happened now so this month you will see this product going to the market. This product is going to the market with two perspectives. One there is a huge synergy with our power generation channel and with the way, the buying process as well as the selling process so there is a huge synergy there and the product also looks similar, the look and feel of the product is exactly similar in all respects and it is a green product so it will go to the market. Margin front, this product should be reasonably in sync with power generation or slightly ahead of power generation kind of a margin so that is the reason why we would be there, the size of the market down the line in three to four years touching Rs.100 Crores in that segment very much possible. Initially it may start little slow because it is a concept selling. Our country has not yet migrated to that level, but lot of government initiatives is very supportive in that direction. Lot of municipal corporations bodies are already taking a decision that big societies should manage their waste on their own and that is where we come into the picture and we give the solutions to the societies and this is a completely green solution so that is on bio-waste. The transformer I think two quarters back, I had clarified in the similar call that transformer is only kind of a balancing approach from our side. It is not for the open market we are looking at. We are only looking at on the railways opportunity and that too because the power car opportunity has gone down and transformer is going up in railways so that is the limited play we will have on the transformer side and backup power side is only for providing the hybrid solutions in that domain and not beyond that. These are basically to feed the customer requirements.

Sandeep Tulsiyan: Last question if I may on the recent Supreme Court order which came regarding to the electric pumps acquisition of KOEL if you would like to share what the steps forward from here are on?

Sanjeev Nimkar: I do not think this matter is in this call because as far as KOEL is concerned we have clarified multiple times that this is a personal level matter and of course someone is trying to bring that thing but from all the perspectives it looks like it is not going to impact our fortune and future because we are marketing these products in a completely different brand name so it is not going to interfere with each other. It is completely non-conflict area. One comment, I just missed out on that. We will be aggressively looking for motor as a domain because that goes in sync with our water management solutions we have already mastered the handling the motors, so we may be introducing now the induction motors standalone to the market and we see that as a big opportunity for us.

Sandeep Tulsiyan: What is the size you are looking for here over the next two to three years?

Sanjeev Nimkar: On the motor segment?

Sandeep Tulsiyan: Yes Sir?

Sanjeev Nimkar: The motor segment post our launching in two to three years at least it will reach Rs. 100 Crores to Rs. 150 Crores in motors but eventually it should look at Rs. 500 Crores to Rs. 700 Crores down the line few years five to seven years. We will be aggressively expanding things in motor domain.

Sandeep Tulsiyan: Got it and just one more point was there on the KOEL electric pumps business, which is there in standalone entity if we do the electric pump minus LGM sales, there is a very sharp jump? It has gone from Rs. 50 Crores to Rs. 150 Crores sequentially so is that number correct and if you can share what is driving this huge jump in Q1?

Pawan Agarwal: You are looking at segment revenue Sandeep?

Sandeep Tulsiyan: The segmental revenue of electric pumps, the LGM and revenue what we shared in the call there is a very sharp jump on a sequential basis if you can share the numbers and what is driving this jump?

Pawan Agarwal: On electric pump segmental revenue June 30 2021 versus March 31 2021, KOEL has done Rs. 42 Crores in June quarter and sequentially last quarter was Rs. 49 Crores. LGM has done Rs. 145 Crores in the current quarter. Last question was Rs. 156 Crores and then there are certain inter company reconciliation item so overall in electric pumps segmental revenue that we have reported Rs. 175 Crores for June quarter and March quarter was Rs. 187 Crores.

Sandeep Tulsiyan: Probably I will just take that offline. Thank you.

Moderator: Thank you. The next question is from the line of Rohan a Retail Investor. Please go ahead.

Rohan: Sir my question is regarding the yield that came up about the patent that we filed with IIT Delhi so are allowed to comment on that right now? It was not in the nascent stage?

Sanjeev Nimkar: Yes it is in the nascent stage but that is the hydrogen engine which is developed, so hydrogen technology is a futuristic technology and we are looking at that domain as an alternate to diesel engines.

Rohan: Are there any chances for a scrappage policy in our domain also as we are in oil engines and diesel engines together?

Sanjeev Nimkar: Can you repeat this question please?

Rohan: Like we have an automobile scrappage policy that came out recently?

Sanjeev Nimkar: Actually in our industry that policy does not exist but we are requesting, suggesting the government time and again that the time is up that we should have such policy in power generation and even in the industrial engines we should, but it does not exist at the moment.

Rohan: Final question from me. Sir do we for the commodity that we use so do we in any way like hedge it?

Sanjeev Nimkar: We do not play with the hedging at the moment in whatever businesses we are doing so we do not do that?

Rohan: Thank you for that.

Moderator: Thank you. The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kagalkar: Coming to the PPT you mentioned about Kirloskar Americas Corporation the sales are currently quite small and good? You are selling more of agri followed by tractors? Now the admission in India in India since all of you are going for CPCB 4+ it is quite close to the developed world norm so the exports will be easier what is your view Sir and once again the word of CPCB 4+ what is the deadline that you are hearing and the supply chain at your end for CPCB 4+ how it is?

Sanjeev Nimkar: I think three questions and all pertinent questions. Thanks for that. CPCB 4+ different bodies are working right now for the notification. KOEL is also participating in that work forum so our anticipation is that two months down the line the notification should be out but that is again a guess work there. If that happens we expect by expect by October 2022 CPCB 4+ can be reality but looking at current semiconductor market you touched that question very, very aptly because in CPCB 4+ domain the solutions which are all the competitors and all the players in this industry will be offering, will have a large bearing on the semiconductors, usage of lot many semiconductors based products like VCUs and things like that and currently the whole semiconductor global market is in complete disarray. We anticipate that if this is insisted within that one year's window probably the industry will be constrained so now till yesterday we were thinking one year window is good enough and we should go for it but today morning looking at the current situation, I am just giving analogy, it looks like if one and a half years if the government gives that will be better for that as far as supply chain is concerned. Coming to your first question on the opportunities in US and Europe yes with CPCB 4+ and now BSIV we have migrated to industrial engines near timeframe we can see BSV also will be going by 2023 or 2024 we will be at BSV. So opportunity to export engines or the solutions from India to developed world will be far more achievable for us and as far as we are concerned, last four years, we are actively working on adhering to emission norms required for USA. So we are crossing one by one milestone there. They are called EPA norms so we are right now working on EPA tier four final so another two quarters we will be there. Once that happens our products largely can be sold in US market standalone US market. Right now whatever you are seeing this agri related movements happening there are not per se in US, but in Latin America and nearby countries so that momentum is reasonably good, but yes going forward the US and surrounding opportunities will be better and our ability to service that will also be better.

Bhagyesh Kagalkar: Just one question on the industrial side so there is talk inventories are opening up for the facilities in India to manufacture the products? Does an Indian company like ours have good chance of winning those contracts from any Japanese or any of our other agencies, say dumper or excavators or bulldozers further wins I am saying further wins?

Sanjeev Nimkar: Only India you are talking about?

Bhagyesh Kagalkar: Yes industry division?

Sanjeev Nimkar: I think on that said you are right. We have chance there. We are in fact in touch with some of the global OEMs for that perspective and if everything falls in place you will hear something on that, but there is definitive possibility because the we have migrated upside on the initial norms and our capability in terms of robust supply chain so lot of developed big OEMs have observed that we are a good option to China and good option to themselves in their own country so having noticed that there is a good possibility in the next three to five years horizon that may such OEMs will be here and even we have that opportunity to open.

Bhagyesh Kagalkar: Thanks for the answers and all the best. Thanks.

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

Sandeep Tulsiyan: I had a couple of data points requests if you can share the DVCs volume and value data that you share in the quarter?

Pawan Agarwal: The Ultra High Horsepower 750 kV and above we sold 39 units in Q1 FY2022 valued roughly about Rs.15 Crores and in last year Q1 the quantity was 11 and the value was about close to Rs. 4 Crores.

Sandeep Tulsiyan: The other one basically the 400 kV to 625 kV one?

Pawan Agarwal: That is 322 to 625 kV, so Q1 FY2022 218 units and the value Rs. 32 Crores and similar number for Q1 last year the units are 50 and the value is Rs.7.7 Crores.

Sandeep Tulsiyan: Also in the industrial segment if you can share whatever proportion of sales rotating machines , industrial engines and tractors separately?

Pawan Agarwal: Industrial Q1 this year we have done Rs.125 Crores total. Out of that 44 was tractors and other off highway and other businesses Rs.81 Crores this year.

Sandeep Tulsiyan: What will be the comparable number for these?

Pawan Agarwal: Comparable number for last year will be tractor was Q1 last year was Rs.22 Crores and other segments within industrial was Rs.42 Crores total Rs.64 Crores.

Sandeep Tulsiyan: Thank you so much.

Moderator: Thank you. The next question is from the line of Sanjay Satpathy from Ampersand. Please go ahead.

Sanjay Satpathy: Sir if I can just ask this question relating to your investment in NBFC is here some kind of a limit of how much equity you will contribute to this venture?

Sanjeev Nimkar: Thanks for this question. We have indicated earlier also that the board has indicated or agreed for a Rs.1000 Crores of investment at the initial stage and whatever equity contributions you are seeing it is in that direction only.

Sanjay Satpathy: Total cumulatively Kirloskar Oil will give Rs.1000 Crores to that NBFC?

Sanjeev Nimkar: Yes over a period of time. Out of that till June 30, 2021 we have already invested Rs.701 Crores so roughly Rs.300 Crores further commitment is there.

Sanjay Satpathy: Understood. Sir the other question that I just wanted I think some other people have already discussed that but I just wanted to kind of clarify this new brand initiative which you have taken back and all the controversies which is there, litigations, which are coming out in the newspaper and Supreme Court how are going to deal with it and will have any kind of influence on your business or not?

Sanjeev Nimkar: I think even in the public media there is a lot of clarity given already. The first thing our brand refresh whatever we have done for this group companies is clearly independent activity that anyone can refresh the brand the way they want and it had gone into that domain so that is one point. We felt it was long due and whole market has appreciated that we have received so many comments and appreciations from various sectors of investors, society, customers, suppliers and all across, so we felt this a very positive move which organization has done. Coming to the conflicting matter so that conflicting things at personal level are happening for the last six, seven to eight years and it has not impacted the business at all and going forward with new refresh brand available with the KOEL or group organizations in our assessment our position will be on a better side than what it was yesterday.

Sanjay Satpathy: Sir talking about products like pumps and motors there are overlap and that is where the dispute has risen you do not think that will have any kind of implication for these two products?

Sanjeev Nimkar: I do not go into what is the personal conflict. What we market right now are the pumps which are completely different brand and that continues.

Sanjay Satpathy: Sir the last question that I just wanted to ask is with you is that your agriculture the one goes for tractor to Punjab tractor and so how that segment is really doing in sense that lockdown agreement and how do you see that part of that the business kind of expanding going forward and are you worried about the cyclicality?

Sanjeev Nimkar: Cyclicality of that business is always going to be there. Tractor as a country as a whole tractor market is cyclic. Three years up and one year done we will always continue. In fact last four to five years that cyclicality is not seen. We are only seeing the tractor market only going up but as a player in the industry for a long-term basis we are aware that there will be a year coming any time which will take this little down and then again it will go up so that happens. Coming to specifically on the Punjab Tractor and thing it is a very strong mutual relationship which is going on because it helps them for to scale their own sources of engines or whatever way. We are reasonably competitive and our quality of product is excellent. Acceptance in the market is also good so it is a mutually convenient way of working and it is going very strong so in fact last few quarters the business is growing up.

Sanjay Satpathy: Sir if I ask it the other way that overall your market share of your tractor is in for the country on a whole can it go up from where it is and how will it happen?

Sanjeev Nimkar: That is the question. Unfortunately what has happened the top players who hold good market share in the country, most of them are having their own sources or their own production hubs so I do not see some of them coming to us. Of course our relationship with them will continue but the other two, three, and four number players but other than that there are four or five players with whom we are dealing for the last four to five years those numbers are going up but their market share till then has not improved significantly but they are gaining share. That is the story. In this tractor business we do have good solutions with us. Some of our players are taking engines from us and exporting out of India to some other markets but that numbers are growing but not very big numbers. That is how it is.

Sanjay Satpathy: Sir if I can just ask relating to that between engine categories will you then say that over the next three to five years, it is the industrial engine which will probably be have the best prospect or which segment really the next three to four years point of view between PowerGen and tractor and industrial which one really are you most excited about?

Sanjeev Nimkar: Power generation will continue to be exciting segment for us. There is no doubt in my mind. The reason being in Ultra High Horsepower the last year we grew by 50% in the pandemic year. This year our growth story continues. We will be launching some products in that segment in 1250 and 1500 two quarters down the line because we are very close to the final things now. This protos are already done, very shortly we will get into pilot mode. So that will continue and country as a whole if our economy is going to grow power generation will be providing a good opportunities, one. Second the infrastructure is going to give good impetus into the industrial. Not only that the emission changes, which has happened that is also taking the market significantly up in terms of size of the market itself. For example, CPCB 4+ transition will make the power generation pie grow up by 20% to 25% kind of an overnight kind of thing so BSIV and some more emissions norms coming in now that will also increase the industry size and obviously the size of the total profits available in the industry. That will also up.

Sanjay Satpathy: The reason why I was asking is that one is power generation there were concerns that with electricity becoming available 24x7 there is a headwind there and similarly on the tractor engine side you have upside the cap in terms of market share so whereas in the industrial probably we do not have any of these concerns so that is why it might be lot more you might be seeing a much growth prospect so I am just talking from that angle?

Sanjeev Nimkar: I would like to correct your first statement and it will be good for all the investors on this call or all the analysts on this call is that the power availability in the country rather it is directly proportional to our business of power generation. We are in a backup power business. Kindly note this point. We are not in a prime power business. We are in a backup power business. That means what? The more and more the power availability in the country goes up our business also goes up. It is directly linked because power availability and power utilization going up in the country is a sign of growing economy. If the economy is growing and new projects are coming up my power generation business goes up. So that is the way to look at it. No longer my power generation business, is linked with the electricity now.

Sanjay Satpathy: Understood. Thanks a lot Sir.

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

Bhavin Vithlani: Good evening Sanjeev. Thank you for the opportunity. Just one question from my side this is on tillers and the size of the market is a fraction of the tractor market whereas our country has a very large proportion of small and marginal fields so the question as an industry what are the efforts that we are taking so that and because you had mentioned that the efficiencies have been corrected for to see that the absolute size of the tiller grows?

Sanjeev Nimkar: You have touched a very important question. Actually yes you are right. From the farm mechanization total market size versus the tiller as a percentage of that is very small. We are also looking at last time I mentioned this that there is a weeder segment in that so last 18 months we have done a significant inroads in weeder market. Even tillers we are doing reasonably okay, but we are actively looking at related spaces on specifically for the small and marginalized farmers so we are working from solutions on that. I cannot reveal right now, but we are working out some solutions on that.

Bhavin Vithlani: Sure as an industry is there a probability that you see that given that 65% of India's farm land is small and marginal, the tiller industry can actually show exponential growth because actually the effort has to be industry wide rather than a single player?

Sanjeev Nimkar: I agree with you on the effort side but not on the exponential growth side. Unfortunately, last five to six years if you look at it, tiller markets have remained almost stagnant. Going forward, I can see a growth in the market but not very significantly growing because somehow there is psychological barrier in the minds of the buyer when he buys the tractor that is like a big possession for that individual whereas when he buys the tiller it does not go into that domain. That may be one of the hurdle, but for the application per se the small tractor and tiller almost exactly the same applications and tiller at a much half the cost or even one-third of the tractor cost we can get the same work done but there may be psychological barriers.

Bhavin Vithlani: That was the question I had. Thank you so much for taking my question.

Moderator: Thank you. The next question is from the line of Amit Shah from Antique Stock Broking Limited. Please go ahead.

Amit Shah: Thanks for the opportunity. Sir my question was more on the new business ventures or the new business areas that we have recently ventured into the wastewater or the biomass and the overall core business so how do we see this revenue mix changing over the say next three to five years? What is the current mix and how does it move going ahead and what sort of margins do we enjoy in these new business areas as compared to the core business margins? Are they inferior, superior or if you can throw some light on the color of margins that we enjoy currently?

Sanjeev Nimkar: The first thing is as I mentioned some time back that water solutions business will continue to grow and it will take the percentage of then engine based business versus water solution business the engine percentage. The engine business will continue to grow but the percentage of that business will keep on falling down and water business will go up and related business and margin in that business is also I will say comparable with Indian business if not better. We will try to see that water solution business margins are comparable with the current margins so we will not be deteriorating margins but we will be entering into industry which is growing continuously and not so much dependent on whether fossil fuel or some other any other barriers if it is not dependant on that. So it is highly growing and a better industry. Profit margins will be almost on similar lines. If today are not but we will be very soon we will be closer to that. Coming to bio-waste side margin side it will be better but the size of the market we will have to put lot of efforts to keep on expanding because that is newer horizons. In fact, the government policies per se will be quite helpful in that domain encouraging societies, encouraging commercial spaces to opt for those kinds of solutions but it will be market development today, but the margins will remain on a better side specifically on the bio-waste side.

Amit Shah: Sir what will be the current mix in revenue terms? Is there any number that we can currently give and what sort of mix do we expect few years down the line? Is there any particular target that we have internally set for ourselves?

Sanjeev Nimkar: On a thumb rule basis if you ask me five years down the line, I will not be surprised my engine based businesses will be 60% of the components turnover and 40% will be other businesses.

Amit Shah: Sir with regards to this CPCB 4+ norms implementation this was supposed to happen in April 2022 so any updates on those and what sort of price increase do, we anticipate if those anticipate if those get implemented by April 2022 Sir?

Sanjeev Nimkar: I think, I touched this point some time back. April 2022 is definitively no possibility because the notification itself is not out right now. We can say earliest possibility is October 2022 and that to subject when I said there is a supply chain is broken now on the semiconductor side so that becomes a significant constraint there. Coming to the price rise anywhere it can be from 30% to 40%. Jump is possible there depending upon how the market will settle down.

Amit Shah: Sir what is the capability of the market to accept this price hike or do we anticipate any pressure on the margins because of we will not able to pass on this price hikes if you can throw some color on those things Sir?

Sanjeev Nimkar: I think this is a very, very good question. Look at this way for some product ranges like kV 15kV, 20 kV, 30 kV where customers may have some alternatives available so that range there may be pressure from the customers side to look at some alternatives that can be one thing, but the moment you cross the 30 kV and above then the available solutions to the customer which are reasonably priced solutions are not much and these products are going into majorly in the new projects. Someone is coming out with a new hospital, new five star hotels, some new complex, or residential building anything. When that happens people will be generally suppose today in a project of Rs.50 Crores someone is budgeting let us say Rs.15 lakh for a genset, tomorrow they will be budgeting Rs.17 lakh or Rs.18 lakh for the genset or Rs.20 lakh for the genset. That is the change which is going to happen which majority of the customers of 30 kV and above generally do not fund from available reserves or individual pockets so it is a project funding happens so I do not anticipate much of a problem in terms of passing the prices because power needs to be backed up so there is no alternate for the customer not to have back the power and since this is a project funding so at the time of funding itself the provision will happen and I do not anticipate much of a constraint or challenge on that side.

Amit Shah: Sir one last question from my side with regards to the data centre market Sir, I think that is one of the fastest growing market in India as well as globally what is our presence in that particular market and if you can throw some color with regards to the kind of revenue generation that is happening from the data center side Sir?

Sanjeev Nimkar: You are absolutely right. Data center market in India is growing last two to three years growing very fast and the next four to five years also is anticipated to do reasonably well. One significant change has happened in this market is earlier, four to five years back this market was dominated with 750 to 2000 kind of product range significantly. Now over the last two years, we are seeing this range has moved from let us say majorly from 1.5 to above kind of thing so that is the change in the market which has happened. We are playing a role in data center right now but a very small role because limitation of the range but the moment we have our 1.5 megawatt solution available our presence in this market will significantly go up. Right now we are a marginal player in data centers.

Amit Shah: Thanks a lot Sir. Thank you very much for answering my question.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Dhirendra Tiwari for closing comments.

Dhirendra Tiwari: Thank you operator. Thank you, Mr. Nimkar and Mr. Agarwal and members of the management team and participants. Before we close the call any final comments management Mr. Agarwal would you like to make.

Pawan Agarwal: Thanks Dhirendra. Thank you all for participation in this conference call. I appreciate your time and interest in us. Have a nice evening and a good weekend ahead. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Antique Stock Broking Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.