"Kirloskar Oil Engines Limited Q2 FY 2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Kirloskar Oil Engines Limited Q2 FY 2021 Earnings Conference Call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Abhishek Puri from Axis Capital Limited. Thank you and over to you, sir.

Abhishek Puri: Thank you, Janis. Good afternoon, ladies and gentlemen. On behalf of Axis Capital, I am pleased to welcome you all for the Kirloskar Oil Engines Limited Q2 FY 2021 Earnings Conference Call. From the company we have with us today Mr. Sanjeev Nimkar – the Managing Director; and Mr. Pawan Agarwal, the Chief Financial Officer of the Company.

The call will be initiated with a brief overview by the management followed by the Q&A session. With that, I would like to handover the conference to Mr. Pawan Agarwal for his opening remarks. Over to you, Sir.

Pawan Agarwal: Thanks, Abhishek. Thank you, everybody, for joining the call today. I am Pawan Agarwal, the Chief Financial Officer of the company. Present with me on this call are our Managing Director Mr. Sanjeev Nimkar; and our Company Secretary – Mrs. Smita Raichurkar.

First of all, we hope that everyone present on the call and their families are safe and healthy during these COVID times. Also, we would like to take this opportunity to thank each and every stakeholder of Kirloskar Oil Engine Limited for their continued support in navigating through these challenging times. We would like to inform that all the workplaces at KOEL and its subsidiaries continue to maintain safety and hygiene protocols like wearing a face mask, physical dispensing norms, and workplace sanitation to make sure that the health of our people is assured.

We wish to start by qualifying that during the call we will make some forward-looking statements. These statements are considering 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 today on the call. And we would not always be able to update on these forward-looking statements.

With unlocking of geographies, we have witnessed improvement in our business performance, and the same is reflected in the financial results for the quarter ended 30th September 2020. During the past few months, our clear focus has been on the resumption and gradual improvement of production activities. Our continuous efforts have aided in delivering superior performance even in these uncertain times. We continue to receive positive feedback from our customers during COVID times on the performance and commitment demonstrated by our employees and channel partners. Safety of our employees and fulfilling our promises to our customers continued to remain our top in order two, even though operations of the company were affected to some extent due to constraint in the availability of adequate manpower due to

COVID-19 infection, as well as delay in availability of few raw materials during the quarter ended 30th September 2020. Having said that, on overall basis, quarter two has been quite good for us in many ways.

On the demand side, we are seeing signs of improvement with unlocking, infrastructure and construction activities are gradually coming back in action. On a sequential basis, we have seen considerable recovery in quarter two. In fact, we are started off quarter three also on a positive note. As of now, we are witnessing healthy growth in all the segments sequentially. In fact, all businesses, except power generation business of the company, grew in quarter two on year-on-year basis. Having said that, it is also important to keep in mind the number of countries that are witnessing a second wave of pandemic and lock downs. Hence, we will remain cautiously optimistic and adopt a well calibrated approach to ever evolving dynamics of the market.

We would now like to discuss our second quarter and H1 financial year 2021 standalone financial performance. We are pleased to share with you that KOEL has done well in quarter two sequentially, both in terms of top-line and bottom-line. Quarter one was impacted by the pandemic-led lockdown, market conditions and operational constraints existed in quarter one and therefore we did not have a great quarter one. In quarter two, however, we had a good rebound in terms of business and financial performance. Total revenue from operations for the second quarter stood at a little over Rs. 662 crores against Rs. 682 crores in quarter two of the previous financial year. Total income of Rs. 668 crores for the quarter was about 3% lower compared to Rs. 691 crores for the same period in previous financial year. Except power division business division, all other businesses have delivered growth in quarter two on year-on-year basis. In comparison to the domestic business, international business performed relatively better in quarter two. Our quarter two export sales grew by nearly 8% year-on-year basis. The momentum seen in GCC countries in quarter one continued in quarter two as well.

Various cost reduction measures launched in first quarter continued in quarter two as well, which helped reduce other expenses by 9.5% in quarter two on year-on-year basis. For H1 FY 2021, other expenses are lower by nearly 25% compared with the same period in the previous financial year. As the majority of the employees continue to work from home in the second quarter as well, travel and a number of administrative expenses were minimal in the first half of the financial year. Advertisement, sales promotion, repair, maintenance, professional consulting fees, etc., were significantly lower in H1 compared to the last year. We are quite optimistic that the measures taken by us to manage our costs optimally in H1 of financial year 2021 will help us maintain a lean cost structure and also institutionalize new ways of working.

EBITDA, which is excluding other income, for quarter two stood at nearly Rs. 76 crores compared to comparable Rs. 44 crores in quarter two of last year, which is before exceptional income of Rs. 16.49 crores. This is an impressive 72% growth in EBITDA on year-on-year basis. We made a provision of Rs. 9 crores towards doubtful debts in the second quarter this year, these receivables are overdue for collection from government and PSU customers. And as a matter of policy, we have made these provisions in the books. That said, we are reasonably confident of collecting these amounts from our customers in coming quarters.

On the working capital side, despite lots of challenges of COVID-19, both receivables and inventories have come down considerably, primarily due to robust collections, controlled purchase of raw material and focused approach towards consumption of on-hand inventories. The receivables and inventories are lower by Rs. 60 crores and Rs. 53 crores respectively, as at the end of quarter two compared to 31st March 2020.

Looking at the uncertainty in the economic environment caused by the spread of the pandemic, and as a measure of abundant caution to augment liquidity, during quarter two raised Rs. 100 crores through issuance of commercial paper. These CPs have been redeemed in full on 29th October, 2020. The company has generated more than Rs. 128 crores from operations in first half of the financial year as against Rs. 144 crores during the same period in previous financial year. During the quarter, the company has invested Rs. 45.39 crores towards share capital it's 100% subsidy, Arka Fincap Limited.

At a consolidated level the revenue from operations was Rs. 828 crores in quarter two of 2021 compared to approximately Rs. 817 crores in quarter two of 2020. Total income for the quarter improved from Rs. 828 crores in the previous year to Rs. 835 crores in the current year. All the three subsidiaries of the group delivered profits in quarter two, primarily driven by stringent cost control measures initiated in quarter one. As a result, EBITDA for the quarter at consolidated level was a little over Rs. 107 crores as against Rs. 55 EBITDA before exceptional and other income in the same period previous financial year.

At the group level, PAT for the quarter was Rs. 60 crores compared to Rs. 41 crores in quarter two previous financial year. At the segment level, during quarter two, the electric pump segment grew by 14% year-on-year. Other segment which includes farm mechanization and tractor spare parts and oil grew by 44%, whereas nearly 6% decline was seen in the engine segment.

So, that was on the financial side. Briefly touching on the outlook. The world continues to be in a difficult place, macroeconomic issues continue to exist, and we are keeping a close watch on the trajectory of the virus spread. We remain focused on our customer, resilience in operations, protecting our profit and loss and maintain the liquidity to deal with the impact of the pandemic.

In conclusion, we would like to mention that we continue to remain focused on sales and profitability improvement and making our businesses more competitive. We would like to assure all our stakeholders that KOEL continues to remain optimistic and confident amidst all this turbulence.

With this summary, we may now commence the question and answer forum. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the liner Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: My first question is on the power gen segment. If you could share some more details, how is the market share within different power categories? And have you gained market share in any of the key categories in which we operate? And your comments on the demand outlook on that segment.

Sanjeev Nimkar: Sandeep, good afternoon. And nice to you hear your voice on this call again. Power sector, the market share results have just come in, three, four days back only we received the results. And very happy to share with you, we get the results generally with the telecom and without telecom, because telecom market behaves very erratically and differently and our share also is very different in that, so we look at both ways. I will tell you first, without telecom holistically we are at 35% market share, after a long time we touched, at a company level, 35% quantity market share. So that's at a holistic level. This is without telecom. And with telecom, we are at 31% at the company level. And both places we have gained 2% market share in this quarter.

Sandeep Tulsiyan: Okay. So 33% and 29%.

Sanjeev Nimkar: 31% and 35%, yes. So, that's a positive story. And if you look at the breakup, the market share are not very clearly available on the breakup level, but we have some judgement on that. So, the moment in the market what we are observing right now is LHP, that is the low horsepower and high horsepower, these two segments are moving at a better pace. Whereas the medium horsepower, and we define medium horsepower somewhere in 30 kVA to 200 kVA, that is the domain, which basically goes into banking segment, small retail outlets, the showrooms, the malls, like these kind of segments this product line goes. And there we have not yet seen the pickup as expected. But the lower side and the higher side, both are close to the last year number. But holistically, we are at around maybe 10% decline or last year.

Sandeep Tulsiyan: Okay. And secondly, sir wanted to understand on the power tiller side, there were some restrictions put on imports. So, has that been a bigger contributor of the jump? Or is it more because of the subsidies being released and rural spending happening? If you could just give some colour if you have on the market share or on the overall market, growth perspective over there?

Sanjeev Nimkar: Yes. The power tiller side of this story, we have gained 1% market share holistically. This quarter market share are not yet out, but we have our own estimation that we may gain another 1% in this quarter. So we are right now at 16% holistically in the power tiller story. These whatever modifications and restrictions which were posed, so good to share with all of you that we are not impacted because of that, because we do not import any of the power tiller, like a fully built in unit from China or any other place, we don't bring it. Some components which goes in our engines are brought in, and those are also not affected right now..

But the good part to share with all of you that we are completely geared up to balance this on our own, so all those components which we are bringing in, even those we have indigenized now and we are ready with our own engines going into, complete, that means 100% indigenous engines will be going into the power tiller, even in weeder segment. The first trial is was successful. Now we have put set of, 5 or 10 numbers products before FMTTI (SR), the institute which approves the power tiller for subsidies and going into the market. So we are very confident in another 15 days' time we will get those approvals andby the month of December these power tillers will be in the market. And they are far more efficient and lightweight compared to our existing versions. So, the story here is all across positive in this domain.

Markets are also buoyant. In fact, in this segment, we are seeing weeders have very high market growth, the market itself must have gone up by (+30%), and we have grown up around 44% in weeder segment. So that's very positive. Even power tiller is growing very well. And we have a good order board with us from some of the tenders which we have won two, three quarters back and we are still in the process of executing that. And in the retail side of the story, some particular states which are opened up with subsidy, they made the money available. So we are gaining share there by timely supplies in that market. Because of this channel restrictions the supplies were in constraint, so we could catch on that. So that's the answer.

Pawan Agarwal: Just to add, Sandeep, in quarter two, farm mechanization grew by 56% year-on-year basis, and on an actual basis farm mechanization growth is 11% year-on-year basis.

Sandeep Tulsiyan: Got it. And one small clarification, Mr. Agarwal, is that you mentioned other expenses are down 25% in first half in KOEL standalone So, you are excluding the provision of this Rs. 9.2 crores what we did in the current quarter and around Rs. 6.5 crores what we did in 1Q for arriving at these numbers in other expenses, right?

Pawan Agarwal: No, that is inclusive of provision for doubtful debt. That Rs. 15 crores provision for first half of the year, that is already included in other expenses.

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

Renu Baid: Sir, I have a couple of questions on the core portfolio of power gen that we have. So if you can share some inputs in terms of how has been the growth outlook of this business? And are orders now coming back to normalized levels? How is order book tracking in the segment of the domestic PG? And what is the outlook for the next six to 12 months in the segment? That's the first question.

Sanjeev Nimkar: Yes, I think, to some extent I answered this question in earlier thing, but the few points I will repeat, that order board on high horse power segment and ultra-high horse power segment, like 750 kVA, 1,00 kVA, we have good order board for next three four months definitely. And continuously we are able to get good orders on that. As I said, medium horsepower, the market itself is a little on the slow track, on the LHP the things are moving better. Compared to H1 of last year and H1 of this year we are around 80% now. And we hope this Q3 last year versus Q3 this year, we may be 100% covering, and Q4 we expect growth over last year Q4, positive growth of maybe up to double-digit. And going into Q1 of next year, definitely will be a much better year. And I expect a double-digit growth in power generation.

Renu Baid: Sure. But when we look at the demand drivers in the HHP, would this be largely coming in from the reality, hospitality segment? As in, what could be the key drivers of the demand pickup here?

Sanjeev Nimkar: Drivers not so much on to the hospitality, because you know last two quarters for hospitality was the worst disaster came true kind of a thing. So not much has happened from that side. But we are seeing on the infrastructure projects a lot of good moments, we are getting orders from airports, new airports which are coming, new ports which are coming in the country, new road construction which are happening, those are also taking this, datacenters are coming up very big way, so some of those segments also we were getting into. And industry is also taking the products from us, a lot of industries are going into greenfield and brownfield expansions. So what we were anticipating, actually, and I am making a little political statement, that once the new government came into power last year, we were anticipating that things will turn around and a lot of old projects will get rejuvenated, which didn't happen, in the last whole of year. And now because of the pandemic it got another six months delay. But my judgement is, all those projects were on hold for last one and a half, two years, three years, many industries and companies whose balance sheet can afford that, they are positively going for the revisiting and reopening of that. So that wave is very clearly visible right now.

Renu Baid: Correct. Which will definitely be positive for us in terms of medium to long-term demand. Also on the construction equipment, especially the CV BS-IV norms, you mentioned that we are very much on stream in terms of preparedness, where are we in terms of the product approvals and launching them in the market? And do we expect a reasonable pre-buy to kick back in terms of on demand recovery in the second half of the year? And what could be the likely increase in the prices that you are expecting after the new emission kicks in?

Sanjeev Nimkar: So, in one question you have three questions, I will answer all three of them. So this is the first question on the industrial side. Yes, you are right, the current demand on industrial is very good. Coming to the BS-IV, we got a breather of six months, all of you are aware of that, that it was supposed to be 1st October implementation of the new norms, which has moved to 1st April, 2021 now. And we got that breather, so we are happy about it. But we were fully prepared, so no doubt about it. As I speak to you, this is the first time in the history of, at least KOEL, whenever such emission changes happened, whether it is power generation side or the industrial side, this is the first time we will be doing the transition where our prototypes have cross 12,000 running hours. So that's a big number. And that gives us enormous confidence that this transition is going to be one of the smoothest transition for KOEL and for our OEMs and our customers. So that's a very positive news.

And the price rise which you are talking about, it will vary from application to application, OEM to OEM, but I will give you a range of anywhere between 25% to 40%. So that's the price rise on the engine basis. And we have also ensured one of the significant value addition from our side to our OEMs, our customers are, even in such kind of a complex transition, none of our OEMs have to change any of their existing envelope of their product. So their cost is only for the testing of the new engine, but there is no modification required. So this is a big positive which we offered to our customers in this transition. They had huge doubts that they have to go back to the drawing board and change their designs of the product and change a lot of fabrication work and things like that, nothing of that sort has happened, so that's a big project, we have added value to customers this side.

Renu Baid: Sure, this is fairly positive. One last question if I can ask. So now that commodity prices are heading northwards, especially steel, do we anticipate headwinds to the gross margins and profitability as business volumes look to improve in second half? And is the market comfortable enough to take pricing actions at this point in time? That's it. Thank you and all the best, sir.

Sanjeev Nimkar: Currently, you are right that the commodity prices are going up. But the good part of the story is, about 50%, 55% of our raw materials are indexed. And they are indexed generally on a quarterly basis. So we didn't get much of the impact even if some of our suppliers have got the impact. So Q3, marginal impact we expect, a very small impact in Q3. But Q4, definitely, I expect some impact. And unfortunately, situation of passing on these prices to the market on the industrial side looks a little tough, because all of us have lost the first quarter, so everybody wants to cover up for that and they are mentally not geared up to pass on, even the OEMs will not be able to pass on to the end customers. So that is the story. Power generation, we may attempt it in Q4. As always, we will take the lead to take the prices up in power generation in Q4.

Moderator: Thank you. The next question is from the line of Abhishek Puri from Axis Capital. Please go ahead.

Abhishek Puri: Congrats for a good set of results, sir. Sir, just wanted to check in continuation to the previous question. One of your lead competitors has mentioned that they have taken pricing increases in some of the segments in previous quarter, and they have seen a benefit of margin expansion in the previous quarter on the back of that. Have you seen any price increases? Or have you taken any price increasing in any of the segments there?

Sanjeev Nimkar: Sorry, at least it has not come to our notice, actually. We didn't feel the change in the offering prices in the market of any of the competitors. And many times I am also proud about it, so last for many quarters I have been on this investor call and many times KEOL takes the lead in pushing the prices up in the market. So sorry, we have not seen that. But if it has happened, good thing for the industry. And as I said, on power generation we will be attempting in just a couple of months time.

Abhishek Puri: Right. Okay. And secondly, in terms of railway segment, how are your inroads? I read it in your presentation that you have IoT enabled for all the railway related engines that are there. How are your inroads for KOEL given the large competitor earlier had very high market share? So how are we planning that entry and to take market share there?

Sanjeev Nimkar: So now railways is a three-year-old story for us, and now we are clearly number two player in railways. And in terms of the customer preference for our product and our offerings in technology, happy to report that our customers are pretty happy with us. And what we just referred that we are the first company to introduce this kind of IoT enabled technology in Indian Railways first time, no other competitor has done that. And since we could do that, because we have a long learning curve of plus three, four years giving IoT in open retail market. And because of that confidence we introduced in moving parts. Because when we gave that in retail market, all our products were stationary application, the genset is bought and it kept at one place. So when we introduced in a moving application, we were a little skeptical, but successfully implemented. And it is working well. And in fact, the railway officials are very happy about using this technology, because sitting at their cabin anywhere, they are able to track all the power cars wherever they have deployed our power cars, the Kirloskar power cars. So that's the good part of the thing.

Coming to the market share, we have been gaining market share. But there is a subtle change happening into the railways' future strategy. So, last two, three months this changes happened actually. Initially, rather till three months back they were very buoyant on going ahead with one train having to power car as a philosophy. Now railway is shifting to one train one power car philosophy, they are selling one power car there. And they are using a very proven technology in the international market called Head-on Generation, HOG, so they are heavily driving that. And as a repercussion of that, the power car numbers are coming down. Not only that, they have put new power car purchase on hold for next one year's time. But right now we are executing the orders in hand, so that is one good part. Second, we will also be expanding our portfolio into the railways, not only power car but some other domains also we will be offering our value offerings from our side to railways. And that will start adding our revenues in a couple of quarters down the line. Because we have built in excellent relationship with this customer and since we have made these good inroads, we would like to cash on in the coming years.

Abhishek Puri: Right, very helpful to know. Thank you. And my last question on the emission norms, you have said that price increase can be anywhere between average 25% to 40%. The same was expected for the automobile segment as well, when the transition happened earlier this year, but they could not raise prices, because the end customers were not ready to take that, and hence the effective price increase was much lower. So, in our case, would we be able to push off this kind of price increase, I mean, given where the customer demand is today?

Sanjeev Nimkar: This is the million-dollar question actually. Since this is the industrial off-highway domain, so what happens, where you are interfacing with the end customers, relatively not easy to pass on.

But here with our industrial customers, this is also competitive spectrum. So, the way some of the leading competitors will behave, that will decide where the equilibrium will happen on the pricing front. So, initially, as I said, different models is 25% to 40%. Now, we need to look at it in a larger perspective. Now, whatever engines we give in industrial engine spectrum, out of that 35% products are undergoing this emission change, the 65% are not under emission change, those are of the old emission or not yet come to the emission side, so that is a different story. So, this is impacting 35%. Now, within this 35% there are some leading players in the market. If they decide to absorb such kind of cost or pass on limited, then our OEMs eventually may have a little say to increase the end customer price. And if the end customer price does not go up, the pressure will be put back on us to curtail the price or give further discount or things like that. But this will be very clearly visible somewhere in the month of August, September 2021, not before that. Because in some other call was asking us what kind of peaking we are expecting. So in this 35% segment, we expect good peaking from December to February, these months. And probably some of our OEMs may stock up next three, four months kind of stocks for them. So, even after the emission norm change which will happen on 1st of April, the new prices will not be visible in the market till August start. That's my estimation or rather our company's estimation. And August, September prices will be visible and that point in time we will realize that which competition has backed in prices at what level.

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

Manish Goel: Sir, just continuing on the industrial emission norms. So, now this norm which gets implemented from 1st April, will OEMs be able to sell equipment with the old version after 1st April, or after 1st April they need to sell all BS-IV engines as well?

Sanjeev Nimkar: No, this is the first time the notification authorities have made a clear distinction, because all of you may be knowing, and some of you may be tracking the automobile industry, what happens in that industry, and including our industry, in the previous version, the implementation and effective, both dates used to be the same date. Now what they are done, 1st of April is the implementation for production. So that means, from that date onwards all our OEMs cannot produce any machine with old engine, but they can sell the already produced machines with the old engines for a six-month window. And that will continue till 30th September. So this is a big change this time they have done, and I think that's a very wise way of implementation. So there will not be any agitation or representation coming back to Supreme Court and things like that. So they have very well taken care of it by giving this window.

Manish Goel: So this will probably lead to probably a decent pre-buying?

Sanjeev Nimkar: Yes, that's what I said. So from December to February-mid or March-mid, we expect the industrial engines to pick up reasonably good.

Manish Goel: Sure. Okay. Sir, coming on the agri portfolio, like we have seen growth across the board, if we probably look at the pumps or tillers, even tractors. So, like, would it be possible to kind of give a perspective as to now as agri portfolio what it would be of the total revenue of our total revenue sites, like if we want to just look at the agri portfolio, including farm mechanization?

Sanjeev Nimkar: Yes. I think Pawan is responding to that in terms of percentage. But when we look at water solution as a vertical what we have come out, defining it as a complete agri will be unfair on that business. Because from the water vertical, to my understanding, 35% to 40% goes into the agri space. From the farm mechanization, almost 100% goes into the agri space, but from the water portfolio, 40% goes into the agri, 60% is still urban consumption. So, we need to have that clarity. But overall, I think Pawan has the numbers.

Pawan Agarwal: Last year quarter two agri division was about 17% of our total sales, quarter two this year it has risen to about 20%.

Manish Goel: Okay. So, this will also basically segregate, as Mr. Sanjeev was mentioning, on the pump side you have segregated agri and the urban side demand?

Sanjeev Nimkar: No, when Pawan is talking about, it is all coming together. But I just wanted to clarify going forward, because when we use the word agri loosely then we should not get carried away by that word actually. Because our water management solution portfolio covers many things, but currently it can be called as agri.

Pawan Agarwal: And the agri, typically when we are publishing these numbers in the investor presentation, what we mean is it includes crop irrigation division which has diesel engine, electrical pump, alternators, spares, oil, etc. Farm mechanization where we sell tillers and weeders, etc. We have tractor parts also included in this. So these are the businesses which are combined under agriculture.

Manish Goel: And farm tractor related engines are in industrial?

Sanjeev Nimkar: Yes, tractor engines we cover under industrial, because they go to OEM. So industrial, we have vertical zed on the basis of we deal with only the OEM customers.

Pawan Agarwal: And in that segment we have tractor, basically tractor engine what we club under industrial segment, that has grown by 60% in quarter two year-on-year basis.

Manish Goel: Okay. Can you go to number, Pawan?

Pawan Agarwal: We would not like to share the number, but growth has been pretty decent.

Manish Goel: Sure. Okay. And just looking at the segmental, just a request, in fact the results which were uploaded on the stock exchange and as well as on your website, they are not clear on the segmental and the balance sheet. So would appreciate if you can upload a clearer copy for our perspective. Because it is not quite clear on the segmental details, it is quite blurred. So if you can probably after the…

Sanjeev Nimkar: It is blur, I mean, not visible or not there?

Manish Goel: Yes, it's quite blurred so we are not able to figure out the number.

Sanjeev Nimkar: Okay, got it. First we got the impression that we have not done it. Now we are clear that it is blur, so we will put the clear version, no problem.

Manish Goel: Yes please. So on the farm mechanization side, as per segment what I see that we have shown profit in that particular other segment. So, now with volumes growing, basically can we probably see that profitability will now positively sustain going forward?

Sanjeev Nimkar: Early to say, but (+90%) I can give you the confidence that this business will be profitable going forward. Because the right bearing in this business we have put it right, and it will be a sustainable business for us in coming future, not only it will be profitable but the profit will also look towards northern side.

Manish Goel: Okay. Can you give us the value data for power tillers? You have given the volume data, so just to get a sense in value wise how well it is growing. Because we have a 15 HP and 12 HP and other products as well, 8 HP.

Pawan Agarwal: On an overall basis, quarter two till September 2020 it was Rs. 32.3 crores, if you are referring to segmental. And the last year quarter two was Rs. 20.6 crores.

Manish Goel: Okay. And I have a couple of questions more, one is on the large engine side, the commentary has been fairly positive in recent past from the defense side and marine engine side. So how is the outlook going forward? And how do we see it in terms of revenue growth and margins?

Sanjeev Nimkar: See, on the large engine, margin front was never an issue and we don't anticipate a big issue there, so that will continue. Only problem of this segment is the decision making speed. Because, fortunately or unfortunately, we have set of customers and even the new customers who are coming in this space, who are bound by a lot of bureaucratic processes, ways of working and things like that. So even small, small things take months together to get the decision, get the funds available and things like that. So, last six months we are consuming the orders which we have picked up even before the pandering. So now the order board is drying up but this quarter we expect good orders to come in, some kind of big project orders are expected in the last stage of closures. So one point which we get hit here is the pace of closures of the order and the funds availability. So that is unpredictable till date. But yes, you are right, if you look at last nine months, the commentary from the external environment, government's attention on the defense side, marine side is positive, they are making a lot of things there. If you look at recently, in all government communication, the defense spends there wanted to increase, all these things. So outlook on this business is positive. But this business needs to be looked into holistic perspective and not necessarily quarter by quarter. Of course, we will be reporting quarter by quarter but will be difficult to every quarter be on positive. Some quarter it may be extremely positive, some quarter it maybe a little lull.

Manish Goel: Sure. And sir, I have a question on exports growth outlook, how do we see it? Exports have been steadily growing and we were definitely aspiring for a larger revenue share. So how is the progress on that, sir?

Sanjeev Nimkar: Quarter two, as Pawan said, we are 8% positive over last year same quarter, so that's a good part of the thing. But in whatever strategic initiatives which we have taken last year, those are on the right track, those are paying off. But unfortunately, in the international markets also, power generation decisions are on a slow track. So whether it is in Middle East or African countries or Southeast Asia, so power generation is running at around 25% lower than the last year numbers. Whereas the firefighting engines what we had introduced and big range which we made available, that is compensating the loss which is happening in power generation side. So that story is extremely positive, and we will continue to do so. And the good part of that story is, earlier we used to get orders only from the Middle East and Southeast Asia, so we have started getting orders from Europe and US also, on that specific segment I am talking about, so that's a good story. And industrial engines in African countries, whatever new technologies which we had introduced, so that also has a good traction. So that has become a savior there. But the real growth story we will be able to see when power generation comes back. And with this lock/unlock situation happening in Europe, we don't know whether Middle East will come into that kind of a thing, we have no idea. But if the power generation doesn't pick up much, we may see. There will be growth but not as per our own expectation, it may be early single-digit or higher single-digit.

Moderator: Thank you. The next question is from the line of Bhaskar Pande from Economic Research. Please go ahead.

Bhaskar Pande: If you could just give me some colour as to how the performance of your KOEL America subsidiary is going? What is the outlook on that sense? And also, in terms of the Arka Fincap investment, can you give us some sort of outlook on that front as well?

Pawan Agarwal: So, you would have seen there the commentary. KOEL America's quarter two has been better year-on-year basis, or in H1 we have grown by 18%. But still it's at a nascent stage, the business, both volume and value is at a nascent stage. We have a good order board position as we started quarter three, the outlook is looking positive, although the first half of the year, especially quarter one was severely impacted because of COVID. But quarter two has been better, and the growth is largely seen in agri and industrial segment over there. So that's doing pretty much okay.

As far as Arka Fincap is concerned, as we mentioned earlier, we continue to tread cautiously in Arka Fincap, 100% subsidiary. As I mentioned in my opening remarks, we have invested additional Rs. 45 crores as capital. So, with that, the total investment is close to Rs. 572 crores. The business is doing well, it continues to take very cautious steps in the marketplace as far as the lending is concerned. There was a significant growth which was visible in quarter two, year-on-year basis. And on quarter-on-quarter also we delivered a decent growth over there. Although it as a small base as we started operations last year, so the base is low, but the business is on the right track. We continue to get good interest from the lenders in the company, so they have been able to raise debt as on 30th September, close to Rs. 550 crores is the total debt that we have. Loan book is about Rs. 800 crores, 38% in real-estate, corporate lending is about 62%, healthy treasury book is Rs. 319 crores, loan book grew by about 20%. And our outlook is that, in second half of the year we would add another Rs. 300 crores, Rs. 350 crores into the loan book. So, we recently started MSME lending also, so that loan book has also commenced. So, we are carrying a positive outlook but taking cautious steps in Arka.

Bhaskar Pande: Right. And sir, any tie-ups also on the card for Arka?

Pawan Agarwal: What do you mean by tie-ups?

Bhaskar Pande: With any other NBFCs or something like that?

Pawan Agarwal: Yes. The management team of Arka Fincap keeps on exploring various possibilities to grow business. So, they are taking necessary steps for the growth of the business.

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

Sandeep Tulsiyan: Sir, if you could share the number of electric pump sales within KOEL standalone, how has that part performed on absolutely basis?

Sanjeev Nimkar: You want value numbers or quantitative?

Sandeep Tulsiyan: Value numbers and also the breakup or DV series that you share every quarter, those numbers.

Pawan Agarwal: You are talking about electric pump, right?

Sandeep Tulsiyan: Yes, electric pumps, absolute value number. And for DV series, the value and volume numbers that we share.

Pawan Agarwal: So electric pump quarter two current financial year Rs. 22 crores, quarter two last year Rs. 19 crores, standalone I am talking about. And DV series, quarter two this year we have done roughly about Rs. 10 crores and the units are 27. The similar number for last year, units 25, value was Rs. 9 crores.

Sandeep Tulsiyan: And second question is on this other expenditure part, which you mentioned, has seen a 25% decline in first half. And if we exclude provisions, it's a 30% kind of a decline. So, wanted to understand, once sales revert back to pre-COVID levels, 100% of pre-COVID levels what you were doing, and some of these expenses like transportation, logistics, marketing, promotion, all of that comes back to normalized level, how do you see the expenses behaving? Will it be down by 10%, 15%? How much of the savings are you going to retain is what we want to understand.

Pawan Agarwal: You are very right. And your observation is absolutely right. A lot of cost control measures that we had taken in first of the year, they were primarily because of the lockdown, pandemic-led lockdown. As the country gets opened up, as the business activities are starting, obviously, some of these expenses will come into play. But it is very difficult to point a specific number as to how much saving will flow in quarter three. But the way we are seeing quarter three, at least we can say that we will be maintaining the double-digit EBITDA, and probably will be improving on last year's EBITDA margin for quarter three. So that guidance we can give.

Moderator: Thank you. The next question is from the line of Bhagesh Gagelkar, an individual investor. Please go ahead.

Bhagesh Gagelkar: Regarding the CPCB compliance, one of the MNC competitor, Cummins, recently stated in the call that they have far better advantage over all competitors because they are sourcing turbocharger and HCR and many other technology from their sister concern in terms of costs and everything. So what is your view on this and what will be the ballpark number then that a company like us will look on increasing the cost of CPCB compliance?

Sanjeev Nimkar: Ballpark number you mean to say on cost increase side, you are asking?

Bhagesh Gagelkar: Yes, roughly.

Sanjeev Nimkar: Okay. So CPCB 4 or CPCB 2, whatever transition we have done earlier also, 2014, I am happy to report and I have repeated this many times on this call that our competitors have good habit of going to the media and announcing that they are the only one and they are ahead of the curve and ready and all these things. But the facts of the matter that when it happened last time we were the first to cross 32 models on the day one of transition. And we were observing that it took long many months for our competitors to catch up, including what you just mentioned, the same competitor and some others also. Not only that, we also introduced technologies which were just apt for the market, while they are adhering to the government requirements, at the same time reasonably competitive for our end customers in terms of cost. So that perspective and traditionally that has been KOEL's specialty of looking at things. We keep customers at the center and then we revolve our technologies around that, and not the other way around. First keep the technology at the center and then revolve the customer around that, unfortunately, we do not do that way. So when we keep the customer at the center, coming to the CPCB 4 plus, good part of it, the BS-IV transition which is happening right now, so 70%, 75% of the work what we have done, for that is going to be readily useful for our transition of CPCB 4 plus. That's point number one.

Point number two. The connected technologies, they call it in technical term, after-treatment technologies, that would be the new thing happening in CPCB 4 era, which was not till date. Because everything which was happening for the emission adherence was inside the engines. In CPCB 4 plus something will happen inside the engine and much more thing will happen outside of the engine. Now we are strong believers of debundling the technologies. When we introduced our CRDI technologies product to the market, we mastered the debundling art. And what we did, we debundled the system into three, four different things and we selected the best available in the world, and then we became the good integrator of that. So, similar philosophies we will be following even in CPCB 4 plus, and we will be offering most optimal solution.

As we speak, we are more than confident that we are ready for CPCB 4 transition, and we expect the notification to come into this thing in next two months, three months' time, which will provide one year window for the implementation. So in all, good anticipation, 1st April, 2022, is our anticipation of effectiveness of CPCB 4 plus. And we are very much ready for that.

Coming to your cost aspect, too early to comment on the cost. But it will be much higher than the last transition. The last transition started with 10%, 15% and ultimately settled down at 3%, 4% or 5%, something like that. But this transition will be at almost double or triple than that in terms of the impact on the market.

Bhagesh Gagelkar: Okay. So 15% odd or 8% or 10%, that's what one can say, this time, where it finally settles down?

Sanjeev Nimkar: Yes.

Moderator: Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the confidence back to the management for their closing comments.

Pawan Agarwal: Thank you all for joining the call today. And we really appreciate the continued interest in KOEL. And as we continue on our growth trajectory, we expect your continued patronage going forward. Thank you so much.

Moderator: Thank you. On behalf of Axis Capital Limited, that concludes this conference. Thank you all for joining. You may now disconnect your lines.