"Kirloskar Oil Engines Limited Q1 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Kirloskar Oil Engines Limited 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 the 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. Dhirendra Tiwari from Antique Stock Broking. Thank you and over to you Sir!

Dhirendra Tiwari: Thank you. Good evening ladies and gentlemen, welcome to Q1 FY2023post results conference call of Kirloskar Oil Engines Limited. We are glad to have with us Ms. Gauri Kirloskar - Managing Director and Mr. Pawan Kumar Agarwal – CFO, and the management team with us. Let us begin the call with an introduction about the results, a quarter by the management and thereafter we will take the floor to the question-and-answers. Now, I will request Ms. Gauri Kirloskar to start the conversation and then we will move on to the Q&A. Welcome Ms. Gauri, thank you.

Gauri Kirloskar: Thank you. Good afternoon to all of you. I would like to thank you for joining the call today. Present with me on the call are Mr. Pawan Agarwal, the Chief Financial Officer of the company and our Company Secretary Ms. Smita Raichurkar, also present are our business unit heads including the team from ARKA Fincap. A new attendee for our earnings call this time is Mr. Aseem Srivastava. Aseem is an industry veteran with significant domain expertise from the pumps business. He has joined as a CEO for B2C business with water management solutions and the farm mechanization business reporting into him. I will first start with an overall business update and then Pawan will update you about the financial performance but before that a customary disclaimer.

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

On last quarter's call I spoke of three major factors that are working favorably for us from a macro-economic stand point. First, I spoke of the government focus on infrastructure development and the focus on "Make in India". Second, I spoke of the China plus one strategy that many organizations and countries are forced to adopt as a sourcing strategy and third, I spoke of the geopolitical situation and its implications. I spoke of the supply chain constraints that are arriving because of it. I will start by giving an update on these points for Q1, the government starts on infrastructure spending continues and we are seeing strong demand coming from these sectors. The China plus one strategy is giving more focus to as we see a sudden interest from many global organizations to come into India as an alternate sourcing strategy. However, the geopolitical situation put constraints on the existing supply chain. The situation still remains challenging but we do see an improvement on commodity is softening from the last time we spoke. However, the same geopolitical situation is also having another different impact on us with the sudden power crisis in Europe and the US there is a sudden surge in demand for coal internationally. This has led to a situation in India where we see a power deficit of greater than 1% from the pre-pandemic levels of 0.3% on average. This has in turn created a sudden demand for power backup which has had a positive impact on our numbers. Overall, the macro-economic situation has created a strong demand for us in Q1.

Let us start with the overall financial performance first. As a company we delivered better results on all fronts when compared to Q1 of last year as you can see from the presentation that was uploaded on our website yesterday. Even if we compare against Q4 fiscal year 2022, the topline and EBITDA are almost at par. If one looks at the trend of our industry over the years, one can find a certain level of seasonality. Q4 is normally the strongest quarter as it is summer and the need for power goes up. Q1 is traditionally weaker then Q4 but still strong and then we see tapering of demand in Q2 and Q3 due to monsoons picking up in Q4. However, this time we are seeing a Q1 i.e. as strong as Q4 of 2022 and that is the good sign for us. At the standalone level sales at Rs.944 Crores was up by 48% year-on-year with EBITDA at Rs.103 Crores. This represents around an 11% margin as compared to approximately 8% in Q1 last year and 10% in Q4 FY2022. Net profit for the quarter was at approximately Rs.65 Crores that is a 164% growth year-on-year. Please note that the year-on-year performance is based on the pandemic hit Q1 of last year. On the consolidated side, revenue was at Rs.1191 Crores, 45% year-on-year and net profit at Rs.82 Crores, 154% up year-on-year. Overall demand was buoyant particularly for prime power solutions business, IE the power gen industrial engines and related customer support. Power generation business demand in Q1 2023 saw strong tale winds fueled by power cut situations that I referenced earlier. We saw good demand for our products in the low horse power and medium horse power segment and in terms of sectors real estate and service sectors especially have been showing an uptake in demand. Along with these sectors we remain focused on hospitality and the data center market too, our product range goes up to 1500 KVA and we will move up further in the range whether we do it ourselves or through partnership. For industrial there is strong demand for tractors, self-loading mixers and fire-fighting pump set engines. As I said in the beginning demand is strong and is boiled down to our ability to get the demand cater to. Supply chain challenges did continue this quarter and I feel that out teams did a great in securing supply in time. Our long-standing relationship with our supplier partners helped and our manufacturing and production teams complimented by delivering the products on time. We were also more agile managing the commodity market inflation and pricing environment. This quarter we also extended our new iGreen series iGreen 2.0 to key markets. These engines are powered with the new R550 series of engines that offer compact design, duel efficiency and higher power quality. The iGreen 2.0 version has 30% volumetric reduction in terms of its smaller footprint and provides renewed commitment to its customers as a reliable and efficient product.

As a strategy as spoken last quarter, we have re-aligned our focus on export markets. The fire-fighting segment has witnessed good traction in our Middle East market since we have increased wallet share with major OEMs. Power generation segment also has shown impressive growth. Overall, we have achieved a year-on-year growth of 64% in the international markets. South Africa industrial and UAE firefighting are our focus market segments, we have achieved a leadership position in both markets. Market and product strategies have been developed for both businesses to consolidate our leadership position. To boost our exports further we have undertaken the development of new engine platforms and this is planned to start rolling out in Q4.

On the large engine side, the fisheries segment is showing good demand. We crossed the milestone of 1000 engines in the fisheries segment in this quarter and some of our engines have clocked over 10,000 hours in the field which is the significant milestone that shows the endurance of our product.

Now, coming to new product launches: Electric motors which we launched last quarter are also showing positive traction though there is a long way to go. Another new product is the organic waste composter and at this stage it is more like concept selling and we will see the traction it generates in the market as there is a drive to move into greener buildings and technology. We are at the final stages of getting our alternate fuel engine portfolio launched and you will hear about it soon in the near future.

I will now move on to our B2C businesses which includes the water management solutions i.e LGM KOEL water management solutions as well as the Farm Mechanization business units. Let me first give you an update on the water management side. In the last couple of quarters the margins were immensely under pressure. The main reason was commodity price inflation not being passed on to our customers. The business needs a far more number and flexible approach when it comes to responding to input cost variation. That is our learning and we have made corrective actions. The results are showing and we have managed the inflation very well in this first quarter. LGM had one of the best quarters in the recent past with good topline routes and positive EBITDA. More details are shared in the segmental updates in the earnings presentation. During Q1 KOEL electric continued its strong growth over last year’s Q1 with 25%; it strengthened its position in the traditional states of UP, Bihar, Kerala and Maharashtra while showing strong improvement in Karnataka and Odisha. The Farm Mechanization business is also showing strong growth with new product launches, more channel partners, customer pull and export orders.

On the raw material side, the overall commodity market is quite unsteady and we need to watch the price fluctuations very closely. As this industry is marked by aggressive and dynamic pricing we will take prudent steps at the right point to keep our focus on gaining market share. Going forward we are focusing on exports sales specifically from LGM, the other focus areas include deepening and widening of footprints, cash generations, cost consciousness and marketing activities. These initiatives will help us increase market share while maintaining margins.

Now, for an out turn financial services, during Q1 the global economy has been facing a challenge of increasing inflation. Apart from that our Central Bank has also been grappling with rupee depreciation, at least to shift the focus of Central Bank from growth to control inflation. Global Central Bank has an increasing rates and RBI has also increased rates by 140 basis points including a 50 basis points hike in August 2022 during this fiscal. Excess liquidity from eco-system has been falling sharply mainly due to three reasons which are the cash, reserve ratio hike, forex seal by RBI and limited credit offtake. However, our NBFC ARKA FinCap Limited has delivered satisfactory results for Q1 of fiscal year 2023. There has been modest growth in assets under management of the company without any challenge on asset quality. As of 30th June 2022 ARKAs AUM stood at Rs.2514 Crores with liquidity in excess of Rs.300 Crores. ARKAs profit for the quarter was Rs.15.3 Crores. Overall, the balance sheet of ARKA was at Rs.2837 Crores mainly comprising of Rs.951 Crores of Networth, Rs.1815 Crores of borrowings and Rs.71 Crores of other liabilities. The portfolio yield of the company is at 12.4% with the focused approach towards control over opex and contribution from fees income and the company has registered return on average equity of 6.9% for Q1 fiscal year 2023. In conclusion going ahead we will keep a close watch on the global economic environment such as slowdown possibilities and the war situation but are cautiously optimistic about the domestic demand scenario. While tail winds like capex programs, PLI schemes, infrastructure spending, power situation and opening up of services sectors all go well for us, inflation could post some challenges in the near term. All our new product development programs on alternate fuel and preparation for emission transition for next year is progressing well and is on track. We will continue all necessary investments in resources and product developments and continue to focus on geographical expansion and market penetration. In the presentation and results circulated we have added segment specific key comments to give you more insights into the individual business units. Thank you very much. I will now hand over to Pawan for more detailed financials.

Pawan Agarwal: Thanks Gauri. Good afternoon, ladies and gentleman. Our Q1 results reflect a very healthy start to financial year 2023. This was achieved despite ongoing disruption in the business environment due to covid-19 and geopolitical scenario. Despite these external challenges and inflationary environment we are pleased with our performance during the quarter especially when one considers the challenges, one had to operate in. Though the inflation had been a concern until last quarter we saw some green shoots in terms of inflation easing out on certain commodities towards the end of this first quarter. If the similar trend continues it may give some respite in the coming quarters, more specifically we expect to see some part of its favorable impact in Q3. Our first quarter standalone sales at Rs.944 Crores was 48% higher compared to sales of Rs.639 Crores for the same period in previous financial year. All business divisions has delivered significant growth on a year-on-year basis. Revenue from operations stood at Rs.953 Crores in Q1 compared to Rs.647 Crores in Q1 last year. Our export sales at Rs.95 Crores registered a year-on-year growth of 64% in the quarter compared to Rs.58 Crores in Q1 of last financial year and its put share in the total sales includes from 9.1% last year to 10.1% this year. Good growth was visible in the power generation and industrial segments in the international market, GCC and Africa region demonstrated good growth in sales. Power generation and agriculture business divisions delivered 64% and 25% sales growth respectively in Q1 year-on-year basis. Within power generation business division high horse power segment i.e 200 KVA and above grew by 86.5% year-on-year. Satisfactory growth was seen in the low to medium horse power segment which is less than 200 KVA rating as well. Industrial business division grew by 45% in terms of value and over 12% in volume terms on year-on-year basis in Q1. Within industrial view tractor segment grew by 13% in terms of value, whereas other than tractor segment which includes construction equipment, earth moving fire pumps etc delivered a value growth of 62% year-on-year basis. In fact construction equipments sub-segment grew by nearly 113%. Agriculture business which includes diesel and electric pumps and related spares, farm mechanization which is power tillers, weeders etc and tractor part in all delivered a growth of 25% year-on-year. Electric pump business registered a growth of 24% in Q1 whereas tillers and weeders business clocked 27% growth. In anticipation of strong Q2 we have built up little extra inventories in Q1 to ensure minimal business disruptions. Due to supply related issues on some of the raw materials significant sales during the quarter were back ended and hence you can see increase receivables which are expected to get normalized in Q3. This has led to an additional investment in working capital during the quarter. The investment in net working capital stood at 14 days as at the end of Q1 this year vies-a-via 8 days at the end of last financial year. But this is only a temporary phenomenon and going forward we do not expect major issues on the working capital side. Cash generation from operating activities in the first three month of the current financial year was approximately Rs.27 Crores, whereas nearly Rs.92 Crores of cash was used towards operating activities in Q1 of last financial year. During the quarter company has further invested Rs.99.6 Crores towards capital in its 100% subsidiary ARKA Financial Holdings Private Limited. The total investment in financial services business of KOEL stands at Rs.936.6 Crores as on 30th June 2022. At a consolidated level revenue from operations has improved by 45% from Rs.821 Crores in Q1 of financial year 2022 to almost Rs.1191 Crores in Q1 FY2023. PAT for the quarter for the group was a little over Rs.22 Crores compared to approximately Rs.32 Crores in Q1 of previous financial year registering a growth of 154%. At the segment levels during Q1 all the segments delivered growth in revenue on year-on-year basis. The electric pump segment grew by more than 21%, financial services segment grew by 106%, other segment which includes farm mechanizations, tractor spare parts, oil and new businesses grew by 32% and the engines segment saw more than 49% growth on a year-on-year basis. As indicated in the previous earning call we are happy to report that electric segment is back in profit in Q1 and we are working towards improving the profitability of this segment as we go along. Financial service segment continues to deliver superior result and it has reported close to 140% jump in this segment profit year-on-year basis. As far as outlook for the rest of the year is concerned we expect power generation, industrial and institutional project solution business to continue to do well in coming quarters. We are pleased to inform you that we have a healthy order book in hand, we have good visibility of new order inflows from the international markets as well as in the institutional and project solution business divisions. We expect to accelerate our quarterly revenue growth during the coming quarters in the year. We are keen to improve our EBITDA margins from the current levels but it will largely be a function of how the external environment plays out. Macro concerns like geopolitical tensions, elevated raw material costs, power and fuel prices continue to remain short-term challenges. But as a company we will continue to focus internally to further improve our operation efficiencies and continue to deliver superior financial performance. With this summery we may now commence question-and-answer session. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question-and-answer session. We will wait for a moment while the question queue assembles. We have the first question from the line of Munjal Shah from IDA Wealth LLP. Please go ahead.

Munjal Shah: Good evening. I have three questions, one is considering whatever is happening macro in terms of infrastructure etc plus the companies own efforts in developing new products, new geographies. What type of CAGR revenue growth can we expect for next three – five years excluding financial services like could we be doing 10 – 15% CAGR revenue growth? Second, is what is you have been talking about exports, do we have certain targets in next three – five years what will be the overall export as a percentage of sales and third is on the financials, considering the current interest rate hike what you mentioned also, how much provision have we made in Q1 in terms of NPAs? Thanks a lot.

Gauri Kirloskar: Thank you for your question. On the first question on growth for the next three to five years, I would say that the growth percentage that we are expecting is in the low double digits. Exports is a bit higher at 15 to 18% and for your third question which is on the NBFC, I will request Amit Gupta to answer.

Amit Gupta: Munjal just answering to your third question regarding the interest rate hike and the provision on the book. I would like to highlight the fact that the provision in the book has been made on the entire book, the entire book is current as of now. Considering the interest rate hike we have not been making any extra provision because the provision which has been made is in line with the RBI guidelines and it is being to the satisfaction of our statutory auditors who have already limited give you the financial for quarter ended considering the fact that interest rates are hiking these interest rates are being passed on ultimately to the customers, so we do not foresee any need for extra provision in terms of asset quality.

Munjal Shah: Thanks a lot. Just to summarize, you mentioned revenue CAGR should be in low double digit, so would it be fair to assume somewhere around 12-15%?

Pawan Agarwal: It is difficult to give a specific number but as Gauri mentioned, low double digit is what we are comfortable with at least in the next two to three years is what visibility we have but it will be difficult to give a specific guidance in this regard as a specific number

Munjal Shah: Thanks a lot. Secondly, I missed on the export part, I think you mentioned somewhere around 17-18% as a percentage of revenues?

Pawan Agarwal: Right now we are trending at 9 to 10% of the total revenue as export revenue; our ambition and aspiration is to get the high teens number as a share of total revenue and we are working towards that.

Munjal Shah: Okay, and last question is on what is the capacity utilization in Kagal and in Khadki and how much capex would we need over next three-four years excluding financial services?

Pawan Agarwal: In Kagal plant we have about 55 to 60% depending upon what is the order book position; that is the level of capacity utilization right now and in Khadki we are making very limited products over here, largely it is R&D center. So capacity would not be quite a relevant thing to talk about as far as Khadki is concerned.

Munjal Shah: Okay, and capex over next three years actually ex-financial services investment?

Pawan Agarwal: There are two parts to this question, one is about Kirloskar Oil Engine Limited, where we spend roughly about Rs.70 – Rs.80 Crores annually basically to meet the emission requirement and few other sustenance related areas and new product development related capex. Whereas if you look at the LGM there we do not see any major capex requirement however, since we will be moving to a new manufacturing facility that capex probably, over next 18 to 24 months, would be somewhere close to Rs.100 Crores and in Optiqua where we make wires, cable, pipes and ESVA which is our joint venture, there are no major capex plans at least in the near term i.e. next one or two years.

Munjal Shah: So, Rs.70 – Rs.80 Crores is annual capex for Kirloskar Oil, Rs.100 Crores is for LGM total, right?

Pawan Agarwal: Yes.

Munjal Shah: For next three years or annually?

Pawan Agarwal: Two years, you can say next two-year visibility we have.

Munjal Shah: Thanks a lot. I will join the queue. Appreciate, thank you.

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

Sandeep Tulsiyan: Good evening. My first question is pertaining to the margins that shown in both electric pumps as well as farm equipment, if you could give a little bit more color on this, electric pumps of course, this business was profitable and was under some temporary head wins there was some one time brand promotion expenses we had incurred last year but the farm equipment piece was loss making for a very long time, so the profitability that we see in the current quarter, if you could give a little bit more explanation as to what kind of steps have you taken other than price increases and how much of this profitability is sustainable what is the sustainable margins that we are expecting in both of these segments?

Pawan Agarwal: Hi! Sandeep, this is Pawan Agarwal. Thanks for your question. In farm mechanization business there is lot of work which is happening. However, still we are not out of the woods, the green shoots that you see in terms margin within the current year is a journey. Right now I do not think we can claim that we have come out of this difficult situation which we have been seeing for the past many quarters. But I am quite hopeful with Aseem at the helms of affair and he is looking at all the areas very, very objectively and there is lot of work happening in this area. The margins are likely to trend upwards, it may take some time, it may not happen immediately. But over the next three – four quarters the farm mechanization business should deliver reasonable margins if not a double-digit margin but at least 5-6% margin we are aiming at.

Sandeep Tulsiyan: On the electric pump side, is it similar?

Pawan Agarwal: Electric pump, as you rightly mentioned earlier this business was delivering reasonable margins; there was a rough patch of couple of quarters and now we are back in profit especially on LGM side where we had a difficult Q4 last year; Q1 again we are back to the old EBITDA margin range 6-7% and we are working towards improvement in margins. So, both at KOEL Electric and VARUNA Electric pump we do not see any reason why we cannot hit double digit margin in coming quarters, in next few quarters.

Sandeep Tulsiyan: Understood. Second question is on the growth, you mentioned that the growth in high KVA was more than 80% and of course it was not as high in these low horse power and medium horse power. If you could also give us a backdrop of how the base industry grew in the same period and what would be our market share in this sprint HP category, please?

Arvind Chhabra: Hi! Good afternoon Sandeep. Let me first speak about the market, from the market perspective did Ms. Gauri also mentioned about that the market grew approximately 50% over the last year though the last year might not be the right benchmark because it was partially Covid impacted but at the same time Q1 also saw a growth over the previous Q4. This final numbers of the final market report is yet to come in but from the prospective of low and medium horse power market is expected to be almost flat wherein the maximum growth would be led by the medium and the high horse power, when I say medium and high horse power maybe 62.5 KVA and above range and more the higher horse power would be higher the growth and that is what we also followed. In fact just to repeat as we saw that in the Q! We again took the leadership position which we have been talking about in the past since the commodity was not we took the leadership position and from the very first day of the quarter we increased our prices in the market. This lead was not helped us in terms of managing the commodity inflation which is getting reflected in the financial but at the same time the industry also followed and it helped in elevating the overall price acceptance in the market. In this initial phase for few days or for let us say two weeks or so we actually went to the extent of regretting most of the opportunity in the market, so that might have some bit of impact on the market share but that was more temporarily in terms of achieving the balance between the price and margins. But finally the good part is the exit as Pawan mentioned that exit to the quarter is with a very strong enquiry board on the order board which means the price has got established in the market and we have come back to our level in terms of the overall market opportunity participation and our win rate. Now, this is actually further getting positive with the new launch in the lower horse power the R550, iGreen 2.0 which Gauri mentioned, this product we have just exposed to very limited market though we expanded it in the Q1 to South and West markets and it is getting a very encouraging response because of its very unique proposition of best footprint, best technical superiority, reliable performance and the overall lower cost of ownership over the life of the product and this will definitely play a major role in terms of moving the market share numbers and this particular technology or a platform will also get extended during this quarter to the other KVA notes also.

Sandeep Tulsiyan: Okay, can you give the market share numbers that you have from an overall perspective as well as in specific KVA, please?

Arvind Chhabra: That detail is yet to come. In all possibility we would be holding or let us say we would have definitely witnessed a growth in the high horse power range wherein in the lower range probably we might have compromised some basis point on the market share. As I said that to establish the price in the market we compromised on few of the opportunities during the first 10 to 15 days of the quarter, but numbers are yet to come in.

Sandeep Tulsiyan: Got it. Also, in high HP range your 200 KVA and plus range if you could give us more sectoral color as to which are the end markets which are driving the growth between the major markets as we operate in the metro rail or essentially into the hospitality and other segments that where we cater to?

Arvind Chhabra: From the high horse power range as we have been talking in the past also, our DV story is going very well and if I may request Pawan probably we would have again clocked an average of 100 plus numbers month-on-month, that continues and if I have to speak about a very specific sector, this was again led by the infrastructure as well as the real estate. In fact mobility also played a major role this time and we are very recently secured a bulk order of 9-10 KVA which is the higher end of the higher end from a very large project which will be supplied in the running quarter and the subsequent quarter. Also, from further high end prospective the K4300 acceptance from the market is very, very good the initial response in terms of the enquiry participation is very, very encouraging and the supplies will be very soon starting from this quarter and the subsequent quarter.

Pawan Agarwal: You are right, just to give numbers to what Arvind said, DV series in Q1 we have sold 373 units whereas the similar number for Q1 last year was 257 units, so you are right.

Sandeep Tulsiyan: And in rupees core what is this number and if also you could share DVCs number for whole of FY2022 please?

Pawan Agarwal: FY2022 full year value was Rs.271 Crores.

Sandeep Tulsiyan: Okay, in terms of number of units for full year 2022 is how much?

Pawan Agarwal: Full year was 1472 units.

Sandeep Tulsiyan: All right. Sir, other question is on the exports, what is the business model exactly we are following over here you did mention some geographies UAE and other geographies where we are leading the market in the opening commentary. But if you could highlight within each segments what kind of business model have we doubled, is it more direct customer sales or a dealer-distributor kind of a model and any color if you could give in terms of new product introduction what has that contributed to this 60% plus that we have seen.

Gauri Kirloskar: Sure, we follow a distributor model in our export market and in terms of new product introductions that I addressed also is mainly for the US market where we are introducing engines that are certified for TFO final they have very stringent emission requirements in the US and it takes a long time get certified for that to be ready with some products there that we will be introducing towards the end of this year.

Pawan Agarwal: To answer your second question, within export which segments are doing well which is leading to a 64% year-on-year growth. In power generation year-on-year we have delivered 93%, industrial segment has given 79% , customer support which has a smaller share there we have grown by 49% and Agri business has grown by 11%. So, in total 64% year-on-year growth in export business.

Sandeep Tulsiyan: Got it. Sir, I have a couple of more questions if I may. One is on the LGM side, any thoughts on acquiring the balance 24% stake because the call option is now due. What are your thoughts on the same?

Pawan Agarwal: The acquisition of remaining 24% stake in LGM is governed by our shareholder agreement and as per the shareholder agreement timelines, this stake will be acquired by the company.

Sandeep Tulsiyan: Okay, any indications that, what valuation and what price will we think again?

Pawan Agarwal: The pricing is already pre-defined in the 2017 shareholder agreement; however I can tell you that this 24% acquisition is likely to get completed within this quarter, which is on or before 30th September 2022, but on valuation we would not be able to reveal anything at this point of time.

Sandeep Tulsiyan: Okay, understood. The last question is another booking one. Within the power gen sales that we did in last year Rs.1430 Crores and also in the current quarter is Rs.430 Crores unless what we have been. How much is the traded portion the alternative battery is control panel that we do, if you could break that upon, please?

Pawan Agarwal: Last year, full year was Rs.272 Crores and in Q1 current year the equivalent number is Rs.85 Crores and Q1 last year was Rs.50 Crores the traded items.

Sandeep Tulsiyan: Got it. All right thank you so much for taking my questions.

Moderator: Thank you. The next question is from the line of Renjith Sivaram from Mahindra Mutual fund. Please go ahead.

Renjith Sivaram: Just wanted to understand strategically, is it fair to assume that at some point in time we will think of moving out our NBFC business because that doesn't constitute our co-run probably then we will focus on our manufacturing and probably can we expect strategically what is your thought process that some time on the near future we move it out from our core manufacturing, if you can throw some strategic light on that?

Pawan Agarwal: That is a great question. I think this question has been coming up on calls time and again but we have been maintaining that we have started our journey of non-banking financial services business very recently it is three-four years old baby and we have long way to go. We have been seeing very good response from the market and which is visible in our numbers also at an appropriate time the board of directors will take a call on this matter and accordingly we will inform this to Street . But at the moment we are doing very well, we are expanding, and we will continue to deliver growth in this business in coming quarters.

Renjith Sivaram: How much have we till date put in equity in that and how much further you are planning to put in that NBFC?

Pawan Agarwal: As we had mentioned in earlier calls also, the board of KOEL has given a comfort up to Rs.1000 Crores in terms of equity infusion in the non-banking financial services business; out of that Rs.937 Crores we have already infused. That is the position we have as on 30th June 2022.

Renjith Sivaram: Will there be any future enhancement of that or it will be like kind of the shifts where our accounting will be comfortable?

Pawan Agarwal: No, at this point of time again it will be a speculative answer, because we have adopted calibrated approach in terms of putting in capital in non-banking financial services business and that has helped the financial services subsidiary really well. They have been able to leverage in a meaningful manner and the growth is coming in. At this point of time KOEL board has not looked at the issue of further capitalization of non-banking financial services subsidiaries because still some room is left out of Rs.1000 Crores commitment which has been given by the parent company.

Gauri Kirloskar: The idea was to give the financial services business firm for taking and the commitment from KOEL was Rs.1000 Crores and it will remain at that. From ARKAs balance sheet point of view they are still under levered, so they still have enough room to grow from an NBFC point of view in terms of leverage and then they will also follow the normal process of raising tier-2 capital like any other NBFC will do for its growth.

Renjith Sivaram: Okay, thank you. This new emission norms are coming, how prepared are we in terms of, are our new emission norm engines tested in all nodes and what is the level preparedness there and with whom we have this technology collaboration to get into this newer norms. If you can throw some light there?

Arvind Chhabra: Hi! Good evening Mr. Renjith. From the CPCB4 cut off prospective since if you all remember this actually was supposed to be cut in from 2022 but because of the pandemic and all it was deferred by near, if you ask from our profession perspective we are well prepared even if the original base could have been there. As far as the technology part is concerned, I will have to reserve my comment because till the time product does not go out what technology tie-up we have in terms of back end we will not be able to disclose but from a readiness prospective most of the products are already on the trial bet.

Renjith Sivaram: Even the testing is done for the most the notes?

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Arvind Chhabra That is what I said whether you have achieved the compliance or not there will be an outcome of the test results, so most of the notes are already on this test bet and they have to go through of cycle of testing of hours, that work is already in progress.

Renjith Sivaram: We have got likely price increase?

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Arvind Chhabra Price increase we can say it will be in the range of 30 to 35% that is what has been the case in terms of the BSIV journey also and since the emission norms that is for the off highway and this is for the power generation, the estimated increase is in the range of 30 to 35%.

Renjith Sivaram: Okay, this will probably happen July 2023, right?

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Arvind Chhabra That is cut off as of now which is the condition.

Renjith Sivaram: So, we can see probably pre-buying before that period because of the price increase?

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Arvind Chhabra That is quite possible because the symbol was the situation when the same from CPC we want the CPC to happen but pre-buying impact of CPCB4 would more depend upon the other final activity if you would have noticed is happening in terms of the retro control to the existing device because that will define the final delta between the two products and the key driver for the pre-buying would be the cost difference on the customer pocket. So, it will be too early to say anything till the time more clarity come in terms of the retro emission control now.

Renjith Sivaram: Okay and we are prepared for even the HHP and higher horse power which we have launched to comply with that norms?

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Arvind Chhabra Whatsoever range would come in CPCB4 plus review we are ready with that. As of now it is anything less than 1000 KVA covered under the CPCB4 norms. We are all set for that note.

Renjith Sivaram: Okay sir. Thank you so much.

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

Amit Shah: Thanks for giving me the opportunity and congratulations for a very strong set of numbers. My first question on the price rise, you mentioned that we have taken some price hike during this particular quarter. What is the quantum of that particular price hike?

Arvind Chhabra: Q1 price increase to the market at an average level for the power generation was in the range of 6 to 7%, it varies from note to note but average realization was in the frame.

Amit Shah: Okay, sir we have been witnessing very strong demand and even we suggested that the enquiry pipeline seems to be very strong .Would you like to give any guidance for FY2023 given that the enquiry levels are very strong, near-term visibility is very strong incrementally even the CPCB4 norms are supposed to get implemented which can lead to a pre-buying. If you can give us some indication as to what is the kind of growth that we are targeting for FY2023, that would be really helpful?

Gauri Kirloskar: Thanks Amit, it will be very difficult for us to give you any guidance on the revenue growth at this point of time but all I can tell you is that Q2 is looking very, very buoyant and Q3 also we have encouraging situation as of now is all I can tell you.

Amit Shah: That is sure sir, also one more thing; on the supply side you mentioned that we are facing some challenges on the supply side. If you can highlight what are the challenges and whether going ahead do we see any retailing of those challenges and if those challenges are resolved what is the kind of growth that we can witness during the quarter?

Gauri Kirloskar: The supply chain challenges are very much the universal challenges that everyone else is facing whether it is commodity inflation or the shortage of few components, I can tell you that our supply chain just 4% of the components are imported and we are working on keeping it local and also having plan-B or plan-C where necessary to build a more resilient supply chain. On the growth demand today is not a problem. As Pawan said we are seeing a buoyant demand for Q2 and going into Q3, so if the supply chain situation improves we can only be more optimistic than that.

Amit Shah: One more question from my side, is it anything few new business centers to enter into one was on the bio-waste management system and second was on the industrial move side and thirdly on the transformers business that we were planning to enter in FY2023. Any update on all these three businesses what is the status and whether we are going that previous plan of entering all these businesses, if you can just highlight that?

Rahul: I will answer about electric part. So, electric motors we have launched in the first quarter and going by the response that we got we seem to be going smoothly in terms of both the order booking as well as in terms of the sales. But also in terms of building our future range, we have gone to the market with limited range to start with but we are working very hard to complete our entire range is going up to higher range of up to 355 frames and also going into higher efficiency motors from I2, I3 that range completion is currently under way. The building up of channel partners in the whole of India is going on very well. The organization chart in terms of having our zonal teams etc is all in place. All-in-all I would say we are as per plans in the electric motor space. As far as the transformer business goes we have updated last time also that we are taking stock of the overall situation in the railways space as far as the tender flow in concerned and therefore we had put it on hold that time and the status continues as it is.

Arvind Chhabra: Just to answer on the bio-gas side, bio-gas is not of an open consumer market product it is a very specific project to make a product and we are doing very good there because this addresses a very specific way because of the input fused it addresses a very specific segment of STP and the poetry plant and our power generation production is actually a part of the entire set up where we have very good tie ups and as and when the new opportunities are coming in we are the preferred supplier there. In fact I would also like to add there is one more product or the segment where we have entered in the recent past that was the end of Q2 and early Q3 of FY2022 which was the Kirloskar Fire Fighting Pumps for the domestic market. Earlier we definitely was one of the preferred market players in terms of the engine suppliers to the overall solution but in last year quarter we entered as full product supplier in the market and that product has been doing very well we have been growing continuously quarter-on-quarter and the good part is in the last quarter which is Q1 2023 we have even extended the range to the complete solution which is engine driven pump set, motor driven pump set and jockey pump set as a solution. Definitely would help us to address a broader market and boost further in terms of our customer acquisition journey for that particular opportunity.

Amit Shah: Sure sir, this is helpful. On these three businesses put together, the electric motors, bio-gas management systems all these put together what is the kind of contribution or revenue that these businesses can generate in the near to medium term if you can highlight what is kind of opportunity available to us?

Pawan Agarwal: Again a great question, the size of the market, size of the opportunity is quite attractive and that is why we decided to enter this space. But like any new concept or new business it takes time to evolve, right now we are checking the acceptance of our offering in the market on all the areas except transformer which is government tender business there it is difficult to comment. But electric motor or KFP/Kirloskar Fire Pumps or organic waste composter, the products have been received really, really, well; the early signs are very encouraging. Just to give you a sense on Kirloskar Fire Pumps we are clocking Rs.20 to Rs.25 Crores per quarter and this is growing. Electric motor we have just scratched the surface, the way Rahul explained we have great plans to expand the range and the size of the market is huge and the area of play is big for us and once the range is available and the distribution reach is there, because both the factors are equally important, we will have a decent journey going ahead in electric motor business.

Amit Shah: Sure sir, this is really helpful. That is it from my side. Thanks a lot for answering all the questions.

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

Dhirendra Tiwari: Thank you very much. I take this opportunity to thank the management of Kirloskar Oil for giving us the opportunity. Before we close the call may I request Ms. Gauri to give a final word and then we will close. Thank you.

Gauri Kirloskar: In conclusion, we would like to mention that we continue to be focused on sales and profitability growth and making our businesses more competitive. We look forward to a great year ahead from the sales point of view coupled with maintaining and protecting low double digits, EBITDA margins as mentioned earlier. Thank you for your participation in this earnings call. We appreciate your time and interest in us. Thank you.

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