"Kirloskar Oil Engines Limited
Q2 FY '25 Earnings Conference Call"
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MODERATOR: **MR. AMIT SHAH – ANTIQUE STOCK BROKING LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Kirloskar Oil Engines Limited Q2 FY '25 Earnings Conference Call, hosted by Antique Stock Broking. 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 any assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amit Shah from Antique Stock Broking. Thank you, and over to you, sir.

Amit Shah: Thank you. Good afternoon, everyone. On behalf of Antique Stock Broking Limited, I welcome you all to 2Q FY '25 post-earnings conference call of Kirloskar Oil Engines Limited. To discuss the results, we have the senior management team of the company represented by Ms. Gauri Kirloskar, Managing Director of the company; Mr. Rahul Sahai, CEO B2B business; Mr. Aseem Srivastav, CEO B2C Business; and Mr. Sachin Kejriwal, CFO of the company.

I'll hand over the call to Ms. Gauri Kirloskar for her opening remarks, post which we can open the floor for Q&A. Over to you, ma'am.

Gauri Kirloskar: Thank you, Amit. Good evening, everyone. I am Gauri Kirloskar, Managing Director of Kirloskar Oil Engines. Thank you all for joining today's call. I'm joined by Rahul Sahai, our B2B CEO; Aseem Srivastav, our B2C CEO; Sachin Kejriwal, our CFO; and Amit Gupta, CFO of Arka. We also have two new people on our team, , Farah Irani who has joined as our Company Secretary; and Samrat Gupta, who has joined as MD of Arka. As usual, I'll start with business updates followed by a financial overview from Sachin, and then we'll open the floor for a Q&A session.

Q2 has been steady, marking the first quarter after the full transition from CPCB II to CPCB IV+. Stand-alone business net sales grew by 13% year-on-year. However, there was a quarter-on-quarter decline of 11%. Please note that the previous quarter, Q1 FY '25, was influenced by prebuy volumes. We saw strong demand, especially from the infrastructure and construction sectors. In the B2B segment, all businesses, except international, grew year-on-year.

Domestic demand is strong, while on the international side, we are continuing with our journey of building capability, channel and the right partners. B2C segment declined by 13% due to a planned plant transition. We have completed the construction of our new manufacturing facility at Sanand in Gujarat, and we have consolidated five of our manufacturing locations at Ahmedabad into this single unit.

On the margin front, EBITDA stood at INR165 crores, reflecting a 14% margin, which is a 450 basis point increase compared to Q2 of the previous year. Net profit for KOEL stand-alone was INR111 crores, a 90% increase year-on-year. If we remove the effect of one-time provisions and reverses made from the -- provisions or reverses, sorry, made from the numbers, then the net profit for the quarter was INR98 crores versus INR66 crores in Q1 FY '24, reflecting a 48% growth. Year-to-date, sales for H1 FY '25 stands at INR2,518 crores, showing a 9% growth year-on-year. EBITDA margins are at 14% and net profit is INR246 crores, marking a 52% growth. Again, if we remove the effect of one-time provisions/reverses, net profit for H1 FY '25 was at INR215 crores versus INR175 crores for H1 FY '24. That is a 22% increase.

Now coming to business updates. As I mentioned, demand in the B2B segment remained strong. Stand-alone sales reached INR1,059 crores, reflecting a 17% year-on-year growth. In the Power Generation segment, the real test lies in market reactions to the new emission norms. This quarter, as predicted, saw slower demand as the market adjusts to the new pricing levels that come with the upgraded emission technology and correction due to the prebuy sales that happened over the past couple of quarters.

We're only one quarter in, so we'll be observing market trends over the next few quarters. We are confident our portfolio of products with leading emission and electronic technology incorporated will enable us to continue to be the dominant player in the markets we serve.

The Industrial segment grew approximately 8% year-on-year, driven by strong demand from our construction OEMs. Field trials for CEV BS V engines are progressing well and customer feedback has been positive. We continue to see strong growth in Defense and Marine and the Railway segments as we continue to drive execution of key projects with customers. The distribution and aftermarket business recorded a 10% year-on-year growth. We are continuing to focus on enhancing our service channel and capabilities to enable stronger support for newer technology products. We are seeing increasing service penetration and expect this to continue as we closely monitor our distribution and service KPIs.

The international business on the B2B side remained steady at INR123 crores versus INR125 crores as strategic realignments in international channels are establishing their teams and facilities to enable long-term sustainable presence in these markets. We are seeing strong growth for our industrial and firefighting products.

However, we are seeing some challenges on the power gen side due to changing power scenarios in key markets like South Africa. We are advancing in our technology road map and alternate fuel tracks. Our methanol gensets were recently showcased at the Methanol International Conference 2024. This was a proud moment for the entire team as we contribute to the nation's decarbonization journey.

In the B2C segment, stand-alone sales were INR125 crores, marking a 13% year-on-year decline. WMS sales dropped by 11% year-on-year, primarily from diesel segment due to softened demand from extended monsoons, the deferment of key institutional customer orders to Q3 FY '25 and the production lag due to the plant transition in Q2 FY '25. While B2C international business nearly doubled to INR13 crores compared to last year, primarily driven by growth in agri engine exports to Africa and the Americas region. FMS sales remained muted at INR14 crores.

Moving to the consolidated business update. Revenue from operations was INR1,500 crores, showing 15% year-on-year growth. LGM inaugurated its new plant on September 12. Five existing manufacturing units were consolidated into a single state-of-the-art facility at GIDC Sanand. We believe that cost efficiencies from economy of scale and a sharper focus on other LGM operations will drive greater growth in the LGM business in the medium term.

In Financial Services, Arka's revenue grew 54% year-on-year to INR195 crores. As of September 30, 2024, assets under management stood at INR6,284 crores.

In summary, this concludes the quarterly update. We are now nearing the end of our 2X-3Y journey. And I assure you that the team is working tirelessly to meet our performance milestones. This journey has been full of valuable lessons, and with our accumulated experience, we are now setting our sights on the long term to be $2 billion vision I had mentioned in the last call. Thank you for your continued support and trust in the team. We're fully prepared for the journey ahead.

With these key business updates, I now hand over the call to Sachin for a quick financial overview.

Sachin Kejriwal: Good evening, everyone. Thanks, Gauri, for the update. I will give a quick update of the financial performance for stand-alone and consolidated business. The results and the presentations for today's call have already been uploaded on the exchange and our website. Q2 top line registered a year-on-year growth of 13%. There was an 11% degrowth quarter-on-quarter. Also, please note, this is now ninth quarter in a row that we have crossed INR1,000 crores in revenue from operations.

Coming to the financial performance. For the purpose of maintaining consistency with the last year numbers presented in the analyst presentation, we would like to give you a further picture of business as usual. At the same time, the CV results that you can see will reflect all the accounting provision reversals.

Now I will start with the Q2 FY '25 stand-alone performance first. So net sales at INR1,184 crores for Q2 FY '25 versus INR1,047 crores for Q2 FY '24, which is 13% year-on-year increase. EBITDA at INR148 crores for quarter 2 FY '25 versus INR109 crores for quarter 2 FY '24, which is 35% increase year-on-year. EBITDA margin at 12% for Q2 FY '25 versus 10% for Q2 FY '24. Net profit stood at INR98 crores for Q2 FY '25 versus INR66 crores for Q2 FY '24, which is 48% increase year-on-year.

Cash and cash equivalents of INR213 crores versus INR112 crores of quarter 2 FY '24. Please note the cash equivalent is net of debt, includes treasury investments and excludes unclaimed dividends. Also the above numbers are excluding recovery against the provisions we had made last year for a specific customer. If you look at the reported numbers, including this recovery, EBITDA margin for the current quarter is 14%.

Now here is a further breakdown of the stand-alone sales for the quarter. The B2B sales were at INR1,059 crores. That is 17% growth year-on-year. Within B2B, Powergen was at INR481 crores, which was 34% increase year-on-year. Industrial at INR253 crores, that is 8% increase year-on-year. Distribution and aftermarket was at INR202 crores, which is 10% increase year-on-year.

And international business of B2B was at INR123 crores, which is 2% decline year-on-year. The B2C sales were at INR125 crores, registering 13% decline year-on-year. Within B2C, WMS was at INR98 crores, that is 11% decline year-on-year. International business of B2C was INR13 crores. That is 110% increase year-on-year. And FMS business at INR14 crores witnessed a 49% decline year-on-year.

The working capital as of quarter ended 30 September has seen an increase of INR69 crores as we are gearing up for future demand in CPCB IV+ regime. However, we continue to have a healthy net cash position, which is in excess of INR200 crores.

Now looking at the consolidated performance for the quarter. Revenue from operations at INR1,500 crores for Q2 FY '25 versus INR1,305 crores for Q2 FY '24, which is a 15% increase year-on-year. Net profit at INR106 crores for Q2 FY '25 versus INR86 crores for Q2 FY '24, which is a 23% increase year-on-year. Again, the numbers I discuss here are excluding the exceptional items and amount of recovery against the provision we had made last year for specific customers. If we exclude the exceptional item and recoveries, the reported net profit for the current quarter is INR125 crores.

Let us have a look at consolidated segment performance now. B2B segment revenue for the quarter was at INR1,075 crores, which is 17% growth year-over-year. The segment EBIT was at INR134 crores, reflecting approximately 77% increase year-on-year. B2C segment revenue for the quarter was at INR230 crores, which is 12% degrowth year-on-year. The segment registered a loss before interest and tax of approximately INR6 crores. Financial Services segment revenue for the quarter is at INR195 crores, reflecting 54% year-on-year growth. The segment PBT, excluding exceptional income, was at INR31 crores that is 22% increase year-on-year.

In conclusion, we delivered a steady performance in Q2 despite significant changes in the B2B segment. Looking forward, we intend to closely monitor the B2B market, especially concerning emission norms while maintaining our focus on the industrial market as we prepare for the upcoming BS V engine upgrade. As we approach the final phase of our 2X-3Y journey, we are cautiously navigating the new emission norms market with a strategic emphasis on key areas like high horsepower genset market and international business expansion.

Now we will open the forum for Q&A session.

Moderator: We have first question from the line of Jason from IDBI Capital.

Jason: Congrats on a good set of numbers. My first question is actually relating to, just wanted to understand that, of course, we are trying to go higher up the value chain in terms of the high horsepower segment. So I just wanted to know in terms of the response from the Optiprime series, how is it? And how is the demand outlook starting for the Optiprime series?

Rahul Sahai: This is Rahul. So what we've seen is that there is a significant interest from a lot of our customers. And we have gained traction. So for example, there are several high-horsepower order board -- or orders that we do have at this point. And we will continue to push and work on the Optiprime from a market communication standpoint, but the value proposition is very clear, and we do see a very clear space for it.

Jason: Sure. And also, just wanted to understand now with the upcoming BS V norms in January 2025, how is the prebuying coming along for the industrial segment, especially for the construction equipment vehicle segment? And also, I just wanted to know in terms of realization growth as compared to the previous emission norms, what kind of realization growth can we look at for those engines? And post that, will margins be in a smaller range of 11% to 12% for us?

Rahul Sahai: Right. So I wouldn't expect a very significant prebuy because ultimately, the engines go into equipment, and we work very closely with our OEMs. And I wouldn't expect -- see, because the margin profile may vary from node to node, but I wouldn't expect the margins to change drastically because we do have enough players and competitive forces in each node. So our margin profile will remain somewhat similar.

Jason: Okay. Sure. I just wanted to understand from a long-term perspective, also finally, I just wanted to ask you that for Arka Fincap, what is the strategy going ahead? I mean, of course, I see there is good growth coming in from Arka as well. But do we look at hiving it off into a separate entity going down the line, somewhere down the line?

Gauri Kirloskar: Sorry, could you just repeat the last part of your question on somewhere down the line? I didn't catch that.

Jason: Yes. What I meant is actually for Arka Fincap, just wanted to know that -- I know we are seeing good growth coming there, but just wanted to know that from a long-term perspective, are we looking to hive it off into a separate entity and keep the genset entity separate? Just wanted to understand from a strategy perspective.

Gauri Kirloskar: Yes, sure. So yes, let me answer your question. And then I can request if Samrat has anything to add, although he has just joined and has been in the job for about 10 days. So from our perspective, as a parent of Arka, what I would say is that we will continuously monitor the granularity of the book, the spread of the risk and the return on equity that we're getting from the business.

But from the view of this being patient capital, there are many ways and means for the business to continue to also raise capital as the requirement is there as the book rolls. And this is something that we will help the business with. When you look at the path for the NBFC, there are certain stepping stones that it will have to take to get to a certain level and size.

And then we can look at logical steps at that time. But it's not something that I will be able to comment on in terms of hiving off or not. Samrat, is there anything you would want to add in terms of some of the maybe plans that we have in terms of the business?

Samrat Gupta: Yes, I would. I just wanted to say that I just want to supplement and complement what Gauri said that as far as Arka is concerned, it's growing at a nice pace. I just joined 10, 15 days back, and the reputation and integrity of the promoters are impeccable, and we have a very good team from a risk management and credit assessment perspective.

Now I am sure that a group like Kirloskar, they believe in patient capital, and they believe in investing in industry and organizations, which survive the test of time beyond 5 years, 10 years or perhaps much more than that, given the background of KOEL.

My mandate is to ensure that I take advantage of the amazing team that we have and look at current things, which we need to perhaps get as far as direction is concerned, more towards building granularity of the book, diversification of the book and also looking at digital distribution system, which is aided by technology and which is also aided by a strong branch infrastructure and collection infrastructure that helps to spread the risk. And I'm sure there has to be a threshold rate of returns, which we need to deliver to ensure the continuity of support from KOEL.

At the same time, the ecosystem of KOEL is very large. The Kirloskar group is very large. As I try to understand the group -- because it's more than 83 years KOEL exists, there are more than 4,000 points of presence where such distribution that is complementary for Arka, and we can build it around that.

Our objective is to build a small ticket, secured retail book because currently, we have a large emphasis on the wholesale book. And while we do all of that, we also have to ensure responsibly we build our customer experiences for convenience and value so that the brand India and what Kirloskar stands for India, we can also deliver as Arka over a period of time.

We are working on a business plan. We're working on all of that. That will take us a little time, but we will do that responsibly without any exuberance, without any UC or expense, only to keep in mind that how we develop India into that kind of entrepreneurial culture and that supports the entire building of the nation. And that's what Kiosk stands for. And once we have that, I'm sure we will get it signed up by our parent company, and see for -- and see to that, that we have a long term and even a short-term execution plan.

Jason: Sure. And just one last question, if I may squeeze in. For this Optiprime series, of course, we were in the process of catering to the data centers in that segment. Have we acquired the necessary certification from CPCB and EPA? Is that done or is that process still continuing?

Rahul Sahai: That's done, and we are executing our orders in data centers already.

Moderator: We have next question from the line of Mihir Manohar from Carnelian Asset Management.

Mihir Manohar: Congratulations on good set of numbers. Sir, would like to understand the Powergen side. I think this quarter the Powergen revenue has 34%, 35% growth. Now if I consider the realization, which is low, which is also in the similar range of 30%, does it mean that volume growth during the quarter was muted and some color on that would be helpful?

The second question was on the pricing front dynamic. There is roughly I think around close to 1 year that the CPCB IV engines are in play. So how is the pricing panning out for us for

CPCB IV engine, I mean, like over the last 6 months? Is it holding up or are we giving some discounts over there? I just wanted to understand that.

Rahul Sahai: Sure. This is Rahul. See, if you look at the last 2 quarters, there was a lot of transition happening. Last quarter was the first quarter where we formally moved into the CPCB IV era. Now if you look at the quarter, the Powergen volume overall for the industry dipped by almost 12% to 15%. And out of that, we've been strong in our market share. So I haven't seen any significant dips.

So as far as that is concerned, we strengthened our position in certain nodes. For example, if you look at our high horsepower nodes, we've strengthened some of, like -- for example, we've got 750 kVA or 1,000 kVA, we've strengthened our position there. So overall, if you look at the market, the market overall declined in volumes, and we saw that impact as well.

We don't have significant volumes in 2,000 kVA upwards. So, of course, we have our Optiprime and that's the path that we are now taking. But overall, we've been fairly strong. And if you look at CPCB IV pricing, at least as of now, we see the pricing hold, but the market is constantly evolving, and we are watchful of that.

Mihir Manohar: Sure. In terms of data centers, is this 1,500 kVA which is provide -- I mean, becoming a product in that particular space? Can you give some color over there as to what could be the revenue for data center in 1H FY '25, that would be helpful?

Rahul Sahai: So it's a lot of different products. 1,500, we have 1,010 and we also have 1,000 kVA Optiprime. We are seeing traction slowly. And what -- we don't really track or report data center segment separately. So I won't be able to give that number, but we are seeing more traction than what we have done before.

Mihir Manohar: Sure. Just my last question was on the Kirloskar Brothers heavy pumps electrification method which they are applying. So can you just provide some color over that, where is the method trending exactly, that would be helpful.

Gauri Kirloskar: So the legal matters all sub judice. So I won't be able to comment on that on the Kirloskar Oil Engines earnings call.

Moderator: We have next question from Palak from MIV Investment Management.

Palak: My question is that, first, are we still confident of achieving our stand-alone revenue guidance, considering the scenario of Powergen segment? Secondly, yes, if we are confident, then what are the levers or the factors which is giving us the confidence?

Gauri Kirloskar: So first -- and Rahul may supplement what I say. But first, I want to say that it's an aspirational target, and that's what it always was. And if you look at the historical growth before we set this target compared to the growth that the company has achieved in the last 2 years, I think that is what we were trying to change in terms of the momentum in terms of the opportunity that we have in front of us. So that's just my comment on the last 2 years.

Of course, now we have 2 quarters to go. The target is certainly something that we're still gunning for, and we will continue to gun for and strive to achieve. All of our teams are excited about the target. It has excited them thus far. And I think that it's certainly within reach. So that's where I will leave it. And if Rahul has anything to add, Rahul please go ahead.

Rahul Sahai: Yes, I mean, I am completely aligned. It was an ambition that we stated and we are going after that ambition. And we've seen significant growth and success over the last 2.5, 3 years. And we'll continue to aspire for that ambition.

Palak: And second is, do we anticipate any changes in H2 in Powergen segment? What is the volume growth that you're expecting? And in terms of pricing, will we be able to maintain the pricing since the other competitors are also catching up with the technology and similar case in terms of margin?

Rahul Sahai: So we are watching over how the market evolves because it might be premature to comment on some of those points right now. But we're keeping a close eye. And because as more and more players enter the CPCB IV markets, it would be interesting to see how the market dynamics evolve over a period of time, but we can't comment on more than that at this point.

Moderator: We have next question from Teena Virmani from Motilal Oswal.

Teena Virmani: Congrats for a decent set of numbers. My question is related to the competitive intensity in key nodes of Powergen for KOEL. So just wanted to understand, are smaller players or even the bigger players trying to get into the market share of KOEL? during the qaurter have you seen any such kind of thing happening in in Q2 of FY '25? Because some of the players have priced their product in such a way that it is much lower than the market rate. So I just wanted to understand and take your views on the same.

Rahul Sahai: Sure. Teena, this is Rahul. If you look at the last quarter, what you will say is that -- or at least what we've seen is that it's more of the established players where node by node, there are certain variations. We haven't really seen a lot of "small players" come in because there is a lot of investment in technology as far as emissions are concerned in the CPCB IV+ era. So we haven't seen too many of smaller players come in, but there are node wise market movements within the Powergen space, and it is generally by people who are well established. I haven't seen any smaller players come and take market share in CPCB IV.

Teena Virmani: So in terms of the ranges, let's say, the low kVA nodes or maybe the mid-kVA nodes up to 400, 500 kVA, have you seen competition from players like Ashok Leyland, Greaves Cotton or maybe Mahindra Powerol?

Rahul Sahai: I would call them fairly well established, so...

Teena Virmani: Yes, right, I mean, relatively smaller as compared to KOEL.

Rahul Sahai: Yes, yes, of course, sure. I understand what you're saying. So yes, we have seen competition come in. So for example, Mahindra has been a long-standing player, especially on the lower end of the market. They've always been strong with the presence in telecom. So we've seen some of that happen. But at this point, it would be wise to look at 1 or 2 more quarters and then be able to come to any conclusion.

Teena Virmani: Okay. So in terms of demand side, do you see that demand in the month of October and so far in the month of November, has demand remained strong despite these price hikes?

Rahul Sahai: So what we've seen in the last quarter is that the demand fell -- overall industry demand fell by almost 12% to 15%. And what -- we expect that to bounce back though. So as we look at the next few quarters, we do see demand picking up again. The last quarter was the first quarter of this transition. And I think we should see more the order board building up and the demand picking up as we move into this quarter. So we are quite optimistic about that.

Teena Virmani: Okay. My last question is on exports. How do you see the second half panning out in terms of growth for the export?

Rahul Sahai: So second half, we are expecting that to be better than what we did in the first half. Some of the challenges that we've seen in the -- on the international business, South Africa was an important market for us as far as power generation is concerned. And because of the power situation improving drastically in South Africa, we're seeing a lower uptake there.

And as a result, what you're seeing is our Powergen business internationally has seen a hit. But on the industrial side, we have still been pretty strong. So if you look at our international business, in H1, our volumes grew by -- or last quarter, our volumes have grown substantially. As we look at the next or H2, we're expecting that to be better than H1 as far as revenues are concerned.

Teena Virmani: Okay. So any traction, which is expected for CPCB IV+ products for exports in the near term, maybe in the next 1, 2 quarters? Or is it still some time away for CPCB IV+ to get accepted in the international markets?

Rahul Sahai: So each region has its own emission standard. So while the product may not exactly be a CPCB IV product, but you're right, each region has its own emissions and the technology would -- and the platforms would remain similar. So what we're seeing is that most of the markets where we currently do international business in, they don't have a very high level of emissionization at this moment.

So if you look at, say, Middle East, if you look at now the African countries, so CPCB IV or having this technology of being able to get down to this level of emission, that definitely helps us. But if we have to target more advanced markets, then we will have to have our products ready with those certifications. And for instance, what we are doing on, for example, in the US, we have EPA -- we have a few nodes that are EPA certified, and we are looking to grow that business. So we'll follow that strategy.

Moderator: We have a question from Bharat Sheth from Quest Investment Advisors.

Bharat Sheth: I mean taking forward to this, our genset side, our international data center, there is a huge opportunity. So what exactly are we doing on that front or are we working, and when do we likely to see kind of a certification which you have replied to a previous participant?

Rahul Sahai: So international data centers are something that we're definitely focusing on. It is a slightly longer term process because the process involves multiple consultant engagement and there are already fairly well entrenched competition there. Having said that, our first focus is the domestic market because that's closer home, and we see a significant opportunity there.

So before we go international on the data center side, we are focusing on the domestic market as far as data centers are concerned. And we do see a strong opportunity to do that. In parallel, we are building out our distribution globally. And in case there are data center opportunities, we're absolutely going all out to execute that.

Bharat Sheth: And my second question is that, if we look at, I mean, India, a lot of players international, so they are looking at India as a global hub for sourcing diesel engine. So in that play, how do we like to play because once they start sourcing it, so they become also more competitive? So what is our game plan, I mean, for this as well as can you emerge as one of the engine supplier?

Rahul Sahai: So you're right, a lot of global companies are sourcing very heavily from India. The advantage that we have is that our entrenchment to the suppliers is very strong. In fact, we even today, in spite of moving to the level of emissions that we have, our imported content remains between 12% to -- about 12%. So our imported content is very low. So our level of indigenization as far as our platforms are concerned is extremely high.

So even if there is competition, building competence for sourcing from India, that's absolutely fine. We don't see that as a cause of concern. We have had people who've reached out to us for like resourcing or sourcing some of their platforms from us, and we are engaged in different conversations there, but there's nothing significant to report at this point.

Bharat Sheth: So when do we expect that we will be in some kind of -- to say maybe down the line 3 years Kirloskar emerge as a large engine supplier?

Rahul Sahai: Would you say -- when you say large engines, you mean like high horsepower?

Bharat Sheth: Yes, high horsepower for international market.

Rahul Sahai: Okay. So what we are already doing, see, we're already shipping out our K4300 platform, which is the 1,500 kVAs we have started. We have commenced shipping that even to international markets. Our 2,000 kVA, one of the first few orders got executed in Dubai. So some of that high horsepower work for international markets has already begun.

What we are doing is we're focusing first on the domestic market with these products. And we are seeing demand locally as well. I mean, so that we will -- we are constantly evaluating and we are taking a call which products to ship where because along with the sale, there is a requirement of establishing an appropriate service infrastructure as well.

Moderator: We have a question from the line of Manish Goyal from Thinqwise Wealth Managers.

Manish Goyal: I have a question on our B2C business where we have like consolidated LGM five plants into a single location. So maybe if you can just provide some perspective, like what is the capex we have done? And are there any more capex lined up? And in terms of benefits, what benefits can we see in near term to medium term, both on the revenue growth front as well as margin improvement front? That is the first question.

And my second question is also pertaining to Powergen exports like for developed markets. We have been seeding our higher range, especially in the US with the subsidiary and a recent acquisition for front-end distribution. So like where are we in terms of getting the certification and what nodes we are looking and when do we really expect the volumes to pick?

Gauri Kirloskar: So Aseem are you there? Will you be able to take the first question for us?

Aseem Srivastav: So if you see, we have done a capex of INR140 crores for the new facility in Sanand. Now this facility is state-of-the-art and with 30% extra capacity, there'll five small plants that we had earlier. In terms of synergies, we believe that we'll be able to actually save cost, also improve delivery time. And for international business, this facility will be a boon for us because many OEMs and also customers from Europe and also from Middle East, when they visit this facility, we think they will be able to approve the facility for new orders.

Manish Goyal: So like if you can just -- would you be able to like quantify in terms of what is the margin improvement? Because probably no doubt this quarter, we -- last Q1, we saw a decent improvement in the margins of B2C business. And this quarter, again, it's probably negative. But in what time frame can we see sustainable double-digit margins because the competition has double-digit margins in this business?

Aseem Srivastav: So if you see in Q1, we actually had -- in LGM, at least, we had close to double-digit market. Even in the WMS pump business, we had double-digit market -- margins. Now this Q2 result has come down because of this plant transition. So as we were shifting man, material, and also the assets to the new plant, we had some challenges and there was less production, which led to some sales loss and that's the reason the results are what they are.

We are still ramping up production where there was some delay. Now in November, we are at around 60% of the mean capacity. And by December, this will stabilize. So our aspiration is to go to double-digit EBITDA for B2C business, and we are confident that we'll be there very soon.

Rahul Sahai: I think there was a second half of that question on our Powergen exports. So if you're talking -- you spoke about our high horsepower strategy for the US. So at this point, we are actually evaluating that. So we are on the drawing board there that which are the right platforms to take to the American market. At this point, I won't be able to give out more than that. But we are looking at high horsepower in the U.S. We are evaluating our options at this point.

Moderator: We have next question from Hardik, an individual investor.

Hardik: I would like to extend my congratulations to Mr. Vimal Bhandari for impressive growth of the loan book to INR6,000 crores with commendable GNPA of under 0.50. As Mr. Gupta steps in, a new MD, having led Tata Motor Finance with a book size of INR31,000 crores and facing high single-digit GNPAs, could you please share how his previous experience will influence the strategic decision of Arka, especially now as the industry is seeing challenges unsecured credit as well as MFI segment in fact trying to maintaining our asset quality would be helpful.

Samrat Gupta: Thank you for the question, Hardik. I wanted to tell you that I have just joined and this is not a captive outfit at all, and it is indeed great. Vimal has built a great book, which is largely predicated upon loan against property and wholesale debt, and the asset quality is amazing. But the issues like this that we are NBFC. And our ratings and our cost of borrowings are much inferior compared to banks.

And in wholesale debt, the spreads are not that high or even loan against property, the spreads are not that high. Given that we don't have any captive focus, my objective is to build granularity of the retail book and that, too, in secured businesses, like places which are relating to small ticket, loan against properties, places which are fully secured, that is my objective.

As far as Tata Motor Finance is concerned, the book, which was not dependent on any captive business, that book had a GNPA of much less than 3%, ROA of much higher than 4%, 4.5%. And that we build over a period of 7 years to about INR15,000, INR17,000 crores and which was fully retained on the basis of distribution and collection and analytics and technology. I hope to work hard with the existing team, where we balance the wholesale book, we balance the retail growth and the investments and ensure that the right kind of ROA metrics is followed out there.

Given that there is no captive business, and there is no demand creation, rather, it's a value creation for the capital that has been invested from KOEL, I'm quite confident that with the existing team and the experience which we had, had to build a secure retail book generating northwards of threshold ROA is what the journey would be. It's early days and I'm learning from everybody. And I'm sure I'll learn from you to see how to make this company very successful on the basis of the metrics, which makes all the stakeholders happy and also their expectations are met.

Moderator: We have a question from Shrinidhi from HSBC.

Shrinidhi: Congratulations on good set of numbers. So may I ask just a couple of questions on Powergen business? May I ask how has been the volume growth for the first half for the company? And if you also have a similar number for the industry? This is for the first half.

Rahul Sahai: So if you look at our volume growth in H1, our volume growth has been about, I would say, 12% to 14% in terms of pure volumes. And I won't be able to comment specifically on Powergen, but I can speak overall. And what is the other part of your question?

Shrinidhi: So this 12% to 14% is overall company level volume or it was very specific to Powergen segment?

Rahul Sahai: No, no. So we don't give to -- that information is internal. I can't comment on the specific Powergen numbers, but I can speak overall.

Shrinidhi: Right. And just 10% to 15% decline, that was very specific to the Q2 quarter, right? And that was industry volume...

Rahul Sahai: Industry volume, yes, correct.

Shrinidhi: Okay. And that was largely due to -- what do you attribute this decline? Is it something which is generally the extended monsoon government capex being low or it's a lot to do with the inventory in the channel?

Rahul Sahai: So I think that -- so there are two forces there. One is, if you look at overall economic activity in the last quarter, that has also declined. So if you look at the GST collections, there is a dip there. The second is, it was the first quarter of 100% CPCB IV. And with the CPCB IV significant scope enhancement and corresponding price increase, a lot of key orders or a lot of procurement decisions were delayed because even the large corporate customers are waiting for in case there's any change in pricing. So it was a combination of two things.

Shrinidhi: Understood. And sir, a related question, would you say the channel inventory for the industry as well as for the company, how would you see it versus normalized levels for the Powergen business?

Rahul Sahai: See, unlike the automotive market, where channel inventories are at an all-time high, and there is a significant -- there's an overall glut as far as the demand is concerned, we are not seeing as much of that. So while -- so we are adequately stocked in the channel. And beyond a particular point, we actually don't want our working capital to be impacted. So we're not seeing anything drastically different from what we were expecting.

Shrinidhi: Understood. And sir, last one, if I may. How much of the Powergen demand for the company actually comes from the residential real estate end market?

Rahul Sahai: So we don't give out a specific number, but if you look at residential or real estate developers, that's a lot of -- that's a big part of our business, especially in power generation, and that's a segment of importance as well.

Shrinidhi: And sir, there, are you seeing incremental inquiries with a lot of this real estate market doing well generally? Are you seeing that inquiry levels in that end market quite strong for you?

Rahul Sahai: We're seeing an uptick. What is exciting or interesting is we're seeing a lot of inquiry levels upwards of 1,500 kVA in that market.

Moderator: We have a question from Manish Goyal from Thinqwise Wealth Managers.

Manish Goyal: A couple of questions. One on the balance sheet. We see a very high level of capital work in progress of INR225-odd crores and as well as maybe INR40 crores, INR50 crores of intangibles work in progress. So what is it pertaining to? What is this capex line for?

And my second question is on the industrial business. On the domestic what you probably see, this quarter Y-o-Y growth is -- basically, it's a single-digit growth. And sequentially, it has declined by 21% from INR320 crores to INR253 crores. So just want to know like what could be the reason? Where the growth rates have been tapering off? And how do we see it going forward? And what kind of prebuying can we see in the quarter 3?

And I just want to clarify here that the BS V norms will be implemented from Jan 1, 2025? And are we like restricted to -- sorry, the dealers are restricted to sell after 1st June? Or how is it, the norm, the way we saw for CPCB IV? And my third question is on share of high horsepower revenues in Powergen, and what do we categorize as high horsepower from what nodes we categorize?

Rahul Sahai: I would request if you can ask one question at a time because it gets very complicated to answer. Can you ask question the first question, and then I'll respond once at a time?

Manish Goyal: My first question was high capital work in progress of nearly INR225-odd crores in balance sheet. And additionally, intangibles also work in progress of, I believe, INR40 crores, INR45 crores. So what is this pertaining to where such large capex are still outstanding, and we are not capitalized?

Sachin Kejriwal: So these are the capex which are in progress, and these are very much essential for the growth of the company. And this capex are in the nature of sustenance capex and the new product development. And this will get capitalized as soon as the projects mature.

Manish Goyal: But what is it pertaining to? Like is it for capacity expansion or what?

Sachin Kejriwal: Yes, it's for the capacity expansion and the new product development. So as you're aware that BS V will be coming up from 1st of January, so some capex are pertaining to that, and few are pertaining to the capacity enhancement.

Manish Goyal: Okay. My second question was on the industrial revenue. It saw a single-digit growth in Y-o-Y and it declined 21% sequentially. So if you can throw perspective why the growth rate seems to have tapered off? And how do we see it going forward?

Rahul Sahai: The industrial business has not declined Y-o-Y.

Manish Goyal: No, I'm saying it just saw single-digit growth, where we have been seeing in recent past very strong growth. And if you probably look at Q1 numbers, it was INR320 crores revenue. And this quarter, it is just INR253 crores revenue. So how much is it probably -- because I believe tractors have improved sequentially, and you did comment that construction industries sales too -- in fact, constructions are doing well? So I presume industrial engines play a fairly strong role over there. So just wanted to clarify.

Rahul Sahai: So if you look at Q1, see, industrial business is a function of the demand that we -- or the forecast that we get from our OEMs. So if I look at my -- the industry business overall, we are actually on track, and it is progressing as per our plan. There isn't a significant issue there. If I look at versus H1 of last year, there is significant growth that we have seen. So if you compare

H1 of this year versus last year, there is significant growth of 23%. So the quarter-on-quarter movement will keep happening, and that is not something that we are extremely worried about.

Manish Goyal: And how do you see the prebuying in quarter 3? And if you can clarify that can the dealers sell after Q1?

Rahul Sahai: So if you look at CEV, yes, I mean, that's the transition that we're talking about. We actually sell the engines to our OEMs, so which is why we wouldn't expect the prebuy to be as high as the way it works in power generation because the OEMs are also limited by the amount of stocking they can do of the overall equipment. So there will be prebuy, it won't be as significant as what we experienced on the power generation side.

Manish Goyal: Right. And last question was on the share of HHP revenues in Powergen, and what node we ideally qualify as HHP?

Rahul Sahai: So internally, we say anything which is greater than 750 kVA is HHP. So that's our internal definition. Now if you look at historically, so maybe 3 years ago, this was in less than 4% of the entire portfolio was HHP. That percentage number would have -- will be over 15%, 20% by now.

Moderator: We have a question from Sourabh Arya from Oaklane Capital Management.

Sourabh Arya: Gauri and team, congrats on decent numbers. The first question I have is on, again, B2C side. There, obviously, in last few quarters, it improved towards -- from 1% to 2% margin to 8% margin. And I know there are obviously this plant-related stuff, which impacted this margin. But what does it mean? It's again a reset to negative and then there will be a gradual journey towards 8% to 10%? Or we expect this was kind of a one-off issue and things would be back to 8% to 10% very quickly in next one to two quarters?

Aseem Srivastav: Aseem here. See, last time when the margins were low, there were a lot of basic issues that all got sorted out, and it took a lot of time. But this time, the issues are basically related to less production, we couldn't produce. And that's a reason we couldn't say it. Now as we have started producing in the new facility where we faced problems in terms of ramp-up, we are confident that we will be able to come back to normal margins by Q4.

Sourabh Arya: By Q4, okay. That's helpful. Second is, so at stand-alone company level, there is a reasonable improvement in gross profit margins of the company. Can you explain, maybe Rahul or Sachin, they can explain, that why this improvement is there, and is it sustainable?

Rahul Sahai: This is Rahul. See, if you look at stand-alone business, it's largely driven by the B2B business. And if you look at our overall improvement on the EBITDA, which is driven largely by our focus on our aftermarket, our HHP growth as well as our continuous endeavour to drive exports, the three key levers continue to positively impact our margins, and which is why at a stand-alone level, you see that improvement.

Sourabh Arya: This gross profit margins will sustain, like this move towards 36%?

Rahul Sahai: So we will continue to strive for improvement. I don't think I can comment beyond that.

Sourabh Arya: Sure. And maybe then lastly, on the export side, so at the start of the year, we had, I mean to say, pretty strong expectations for the export business. While from Q1 to Q2, it has decelerated. Obviously, you commented that in H2 things will be better. But still at the full year level, what should be the expectation from exports? And I understand this South Africa issue, maybe South Africa power situation improving is there, but that would actually continue even going ahead from here on. So maybe that would not be a one-off issue. That is something which is here to stay.

Rahul Sahai: So you're correct. And there are multiple cycles that we are exposed to. So as we become more global, more and more of such situations will happen. So South Africa was an important market for us, and we saw -- we're seeing this drastic decline in demand. But we also have other clients. So we have our GOEM that we've appointed in the Middle East that is work that we are doing in the backend to ramp that capability up. So overall, in the international business is not where we wanted it to be, we expected more. But having said that, we continue to be optimistic because there is a lot of work that we've done in the back end.

Sourabh Arya: Why I'm actually a little bit -- maybe and I would want to ask more is because H2 of last year was very, very strong when we look at it. So would it be, I mean to say, fair to expect growth on those numbers or it would be very challenging. So H1 versus H2 might look good this year, but on a yearly basis, actually, that might be still not good enough to give any growth?

Rahul Sahai: We are very committed to growing beyond last year.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as our last question for today. I now hand the conference over to management for closing comments.

Gauri Kirloskar: Thank you very much, everyone, for joining the call today and for all of your questions and thank you very much for your support to the team. See you next time.

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