Kirloskar Oil Engines Limited

Earnings Webcast

May 16, 2025

MANAGEMENT: **MS. GAURI KIRLOSKAR – MANAGING DIRECTOR – KIRLOSKAR OIL ENGINES LIMITED**
MR. RAHUL SAHAI – CHIEF EXECUTIVE OFFICER – KIRLOSKAR OIL ENGINES LIMITED
MR. SACHIN KEJRIWAL – CHIEF FINANCIAL OFFICER - KIRLOSKAR OIL ENGINES LIMITED
MR. GEORGE VERGHESE – CHIEF HUMAN RESOURCES OFFICER – KIRLOSKAR OIL ENGINES LIMITED
MR. SAMRAT GUPTA – MANAGING DIRECTOR – ARKA FINCAP LIMITED
MS. RIDHI GANGAR – CHIEF FINANCIAL OFFICER – ARKA FINCAP LIMITED

Gauri Kirloskar: Yes, Good morning, everyone. So one of the reasons that we felt it was very important to meet you today in person, two reasons actually. One is that we've come to the end of the very significant journey for us, the end of our 2X-3Y journey. And so we felt it was important that we share some of that the learnings with you and what we feel we have achieved.

We also have a new leadership team at Arka and a new strategy that we're pivoting to at Arka. And so we felt it was important that you meet some of the team from there and they can also answer any questions that you have. Ridhi can please come and sit in front. You all would have seen the Q4 and the FY '25 results and we will be happy to answer any questions that you may have on those as well.

So first, I just like to introduce my team. We have Rahul Sahai, CEO, if you can just stand, so they can see you, CEO at KOEL. We have Sachin who is the CFO at KOEL We have George who is the CHRO From the Arka side, we have Samrat who is the new MD who was appointed in October of last year and Ridhi Gangar, who has just joined us 2.5 months ago. I'll just take a moment to say I feel very privileged and lucky to work with this team. Each of them are extremely passionate about what they do, super hard-working people and great team builders and team leaders.

And so thank you for joining me in this journey and for choosing to join me in this journey. So as most of you know, we had said at the beginning of FY '23 that our aspiration is to grow 2x in 3 years. We not only had the strategy, but we had also decided at that point of time to announce it publicly. And it was something that we had never done like basically having a very ambitious goal and then announcing it externally first.

As a management team, we felt that it's important to do it because we wanted to drive certain behaviors internally. And we also, as a leadership team who wanted to hold ourselves accountable to this goal. It's definitely debatable whether doing such a good thing -- such a thing is a good idea or not. But at that point in time, we knew that it was the right thing to do.

We had also laid out a clear plan on the right side of the slide to achieve that goal and then some pillars around which the growth would happen. This is what we call our Gold Tree. Based on the strategy and the growth pillars we had come out with certain key programs that we knew as a leadership team, we would have to track and focus on, and we would have to make progress on each and every one of these to be able to see success.

This was something that was circulated throughout the organization. And when I say circulated, it means that at every meeting or every review or every field visit that we did as a leadership team in those early days. The Gold Tree was something that we explained. And depending on which team we spoke to, we went into detail on which pillar was the one that they would be contributing to and how could they contribute.

So at a regular cadence, the people sitting in this room would review these projects to make sure that we were making the progress that we wanted. If someone would ask me what do I think is the most significant achievement that we've had in the last 3 years, I would say that it's our product portfolio.

As you all know, KOEL was always known for its dominance in the low and medium horsepower market, and we had very little or no market share in the high horsepower segment. In fact, upwards of 250 kVA, we were not really dominant in the space, and this was really the large opportunity that we saw in front of us.

In an industry like us, platform development or engine development takes years, multiple years, then you have to get it field tested. You have to get it stabilized. And if you look at our product portfolio from 2022 to now, we have a range that runs from 3 kVA to 6 megawatts and even higher if we look at the slow speed engine range.

We not only have the range. We also today have a portfolio in the high horsepower range, which no one else can match, whether it comes to footprint, fuel efficiency, or total cost of ownership. So I feel that at the end of our 2X-3Y journey, we really have something that puts us or gives us the right foundation for the next phase of growth.

The team was able to build out this kind of product portfolio along with a lot of complexity in the last 3 years, which came from the emissions changes that we saw on the powergen side, the CPCB IV+ change as well as the BS V change that we just went through in January.

So we're very, very proud of what we have achieved as a team in terms of this product portfolio. I'll now show you 2 videos. The first one is of our product called Sentinel, where we really wanted to make sure we had a portable genset that was on par with, let's say, global aesthetics and design. So that's the first video. I'm not sure how we can play it.

[Video Presentation]

Gauri Kirloskar: The 1,000 kVA genset, which is the world's smallest housing kVA genset that we launched recently at Middle East Energy. The footprint of this genset is the same in terms of length and width of a 250 kVA genset. So it's a significant disruption in terms of our product.

[Video Presentation]

Gauri Kirloskar: So as you all know, one of the fastest-growing segments in the high horsepower space is the data center segment. So this is a product that we can approach data center customers with. This is a prestigious order that we won last year from the Indian Navy to develop a 6-megawatt engine for marine main propulsion.

So it's not that we've not executed projects of this size. We have done it before. The big difference in the significance of this project for us is that we are the ones who are developing and designing the engines in India. In the past, we had a technology collaboration with a foreign partner. So that's the big difference. We're doing the design, the development and then the manufacturing and assembly as well.

This means that the IP rights will be held within the country, which is obviously very significant in the current environment that we're in, because it's a step in terms of self-reliance and it's also a testimony of our engineering and R&D capabilities. If we look at how we would want to attract engineering talent into our company, this is actually an engine which not many people or perhaps no one can say that they're working on in India.

So if you look at our 2X-3Y journey across our business segments, we can see that all of the businesses have grown over 1.5 times, except for FMS, which is farm mechanization, which saw a decline. But I'm happy to report on the farm mechanization side that the changes that we've made, which is essentially to get the business to break even, are working out.

And if we go back to what the strategy that we had laid out, the main pillar of growth was also international increasing the share of wallet on the high horsepower side and the aftermarket business and all of these have seen significant work and results in the numbers. So, overall, if we look at what we've achieved in numbers against a 2X target, we grew 1.6 times. This is despite a volatile market post the emission norm change on the Genset and the industrial side, where actually our entire product portfolio has changed.

And while making significant changes on the channel side as well, which was important for us to do in terms of our long-term business sustenance. Our EBITDA and cash have crossed the 2X mark and have grown by 2.4 times and 2.6 times, respectively. So if I look at our overall performance, it is very satisfying and significant from where we started, and I'm very, very proud of the team.

To move on to Arka. What we communicated in our previous analyst meets, which was Arka's initial phase, which I will refer to as Arka 1.0, we were purely focused on establishing a stable loan book, and we had put in an initial equity infusion from Kirloskar Oil Engines.

Our objectives were to achieve sustainable growth, maintain very, very low delinquencies and establish Arka's reputation in the market for reliability. So the team has successfully delivered on all of these objectives. The current AUM stands at over INR7,200 crores. Our GNPAs are below 0.7%. And that demonstrates robust operational and risk management systems.

The book has also generated healthy returns commensurate with the kind of portfolio that it has. This stable foundation now provides an ideal platform for our next strategic phase, which we will call Arka 2.0, where we're focused on building a diversified retail-focused high-return portfolio.

Following Samrat's appointment as Managing Director at Arka after Vimal superannuated, we have come up with a revamped strategic roadmap, and this was presented to and approved by the Board very recently. It outlines a laser sharp focus on building a secured granular retail book propelled by twin engines being small ticket loans against property and pre-owned vehicles financing -- pre-owned wheels financing.

During this growth -- driving this growth will be the building out a very, very robust distribution network across India. In this fiscal year, we're starting with approximately 7 states. And we will also be leveraging KOEL's existing distribution capabilities and market standing, especially in penetrating Tier 2 cities and beyond. These represent our key customer segments for these products.

The team is committed to delivering 3 times AUM growth, enhancing ROA to 3%, while maintaining GNPAs below 3%. So that's what we call our 333 strategy. The group's long-term philosophy has consistently centered on sustainable growth and the creation of a generational value across our businesses. We empower each entity, including Arka to operate with the freedom to develop tailored strategies, ensuring self-sufficiency and deliver consistent value to stakeholders.

So with all of this, we believe that we have the right ingredients in place for our next phase of growth, which we call the 2B, 2 billion strategy. We had announced it already in quarter 3 that the aspiration is to grow to a $2 billion organization by fiscal year '30. If 2X-3Y was ambitious, this one is far, far more aggressive.

Firstly, because the goal is, of course, much higher, but also because we have reached a significant size already over the last 3 years and a lot of the low-hanging fruit in terms of change is now gone. So it's going to be much harder therefore to start to grow at this rate. We are aware of this, but we're clear on where we need to focus and where the growth segments are and we've mentioned some of those pillars on this slide.

So even though some of them are laid out in specific years, some of these will stretch across the 5 years. The idea is to be clear on what the segments are, when we will focus on them and where. So as I look back on the last 3 years, it has been quite a journey for all of us. It's been an experience of great learnings. Not everything went according to our plan, and there were many things that actually didn't turn out the way that we expected them to.

But despite all of that, as a team, we've been able to achieve significant growth in the organization. So thank you very much. I'll now request Sachin to come up and just take us through the Q4 and fiscal year-end numbers.

Sachin Kejriwal: Thanks, Gauri, for the update. Good morning, everyone, and thank you for joining today's Investor Meet. And I'm truly excited standing here and sharing the financial numbers with you all. So moving to the quarterly performance. So for Q4, first time in the history, we have crossed INR1,400 crores of sales, and this is our highest ever sales in so many years.

The growth is 21% compared to the previous quarter. And compared to the last year, the growth was 2%. On EBITDA side, for the quarter, our margin was 12.1% compared to last quarter, it was 10.1%. So we have grown 200 basis points compared to the previous quarter. And last year, our EBITDA performance was 12.8%. So the dip, what you see in quarter 4 compared to the last year, it's purely because of the product mix.

On the profit after tax and margin, our Q4 PAT margin was 7.5%. Again, we have seen a good growth compared to the last quarter. So last quarter, it was 5.6%. So we have seen 200 basis point expansion in the profit after tax compared to the previous quarter.

Moving to the annual sales for FY '25, again, for the first time, we have crossed INR5,000 crores of sales, which is 6% growth compared to the last year. On EBITDA side, again, you can see that 100 basis point expansion. So for FY '25, our EBITDA was 12.8% compared to last financial year, it was 11.7%.

So we have seen an expansion of 110 basis points in our EBITDA performance. On the profit and tax and margin for FY '25, our PAT margin is 8.1% compared to the last year of 7.5%. So again, on a stand-alone basis, we have seen expansion in our PAT for the full year.

Moving to the business unit-wise performance. So you can see that we operate in KOEL stand-alone in 2 segments, that is B2B and B2C. So B2B business has grown 6% compared to the last year. And industrial business and distribution and aftermarket have grown in double-digit. So industrial business have grown 12%, distribution and aftermarket has grown 13%. In powergen side, we have seen a growth of 3%.

We all know that in powergen, we went through a major transition where we move from CPCB II to CPCB IV+ effective 1st of July. I'm happy to share that in powergen, for the first time in HHP, we have crossed INR100 crores of sales. So our sales for the full year was INR110 crores, which is 20% growth compared to the last year, and we continue to defend our market share on LMHP.

On B2C side, again, we have seen a growth of 2%. As you are aware that in last financial year, we have done this plant consolidation in B2C side. So we have seen subdued performance in quarter 2 and quarter 3, but now plant has been stabilized and we see a better performance from B2C side. And that's why those growths are translated into WMS business, which is water management solution business. We have seen a growth of 7% and international exports, so we have seen a growth of 67% in the B2C side.

Gauri already spoke about FMS that we went through a restructuring and we'll see a better performance from the FMS side. And I'm happy to share that in the FMS business for -- in the month of March, we turned positive EBITDA. So we'll see a better performance from the FMS side in coming years.

Moving to the working capital performance. So this is also one of the good parameter for us. So just look at the inventories number. So we have reduced the inventory by more than INR200 crores. So by end of quarter 3, our inventory was INR716 crores vis-a-vis end of this financial year, it's INR493 crores.

And look at the DIO, Days Inventory Outstanding, it has improved by almost 30 days, a significant improvement we have seen on the inventory side and similar improvement you see on the receivable side, wherein it has improved from 43 days to 39 days and payables -- days payable outstanding remain constant at 66 days. This translates into a cash conversion cycle of 22 days.

What it means that we convert our inventory into cash in just 22 days. Being in a capital good industry, this is one of the very good effective management of the working capital. And the same you can see translating into our net cash position also. So, our net cash stands at INR448 crores.

So if you look at the trend in last 5 quarters, this is the most healthy and robust cash we are maintaining in our balance sheet.

Now shifting gears to the consolidated performance. So, for the quarter 4, our sale was INR1,737 crores, which is a 21% growth compared to the previous quarter and 6% growth compared to the last year. On the profit after tax and margin, we see that compared to the previous quarter, the growth has been 64%, but compared to the previous year, there is a slightly degrowth of 18%.

Predominantly, this is coming from our Financial Service wherein we have taken onetime provision in quarter 4, and we will talk more in detail in our Q&A session on that. On the annual basis, our sales have been close to INR6,300 crores. So it was INR6,295 crores for full year, and PAT was 7.1%. We just see a very marginal degrowth in the PAT, 0.4%. And as I explained that this is predominantly coming from our Financial Service business.

Just giving you a glimpse of certain consolidated performance for B2B business. So in the B2B business, you see that we have seen a very strong growth of 21% compared to our previous quarter, which was quarter 2, and we have registered a higher service in powergen business and distribution in aftermarket. And we have witnessed a double-digit growth in aftermarket and on industrial business on year-to-date basis.

So, there are certain major transition which has happened in B2B side. So I spoke about CPCB IV transition, which was effective 1st of July. There was another major transition, which was effective 1st of Jan, which is a transition from BS IV to BS V. And we have successfully completed those transition effective 1st of Jan. Now we see a strong demand from construction and defense sector in industrial business.

Also, on the genset side, we are seeing that demand getting stabilizing across all the ranges. And I already spoke about that for high horsepower, we have had a very good start to this year wherein we have crossed INR100 crores for the first time. And this is just the beginning of our journey in HHP segment.

Moving to the B2C performance. So, on the B2C side, if you look at our Q4 performance, it's INR317 crores, which has grown 42% compared to the previous quarter. So I know a lot of you were a little nervous that what's happening on the B2C side, and we kept on saying that consolidation work is going on in B2C side, and that will stabilize by end of Q3.

So that work is completed now. And now you can see the better performance on the B2C side, wherein the revenue growth is 42% and just look at the profitability increase. It's 269% quarter-on-quarter growth on the profitability in the B2C side. And compared to the last year also, we have seen a growth of 15% on the top line from the B2C side.

So thank you. With that, we'll open up for the Q&A in a moment.

Gauri Kirloskar: If there are any…

Teena: Hi Gauri.

Gauri Kirloskar: Hi Teena.

Teena: Yes. Congrats with a good set of numbers. So my first question is related to genset market. On the current situation, has the demand stabilized and has pricing stabilized now? And how do you see the competition in this genset market right now? So basically, how do we see this market in FY '26 versus FY '25? As FY '25 was relatively weaker as far as volumes were concerned. So that's question number one.

And my second question is related to your strategy to grow exports. Country wise and product wise and how do you see this export proportion to grow going forward? So these are my two questions

Gauri Kirloskar: Sure I just request let's start with one question at a time. Especially when you have several questions embedded inside. But I'll start. So the first one was on Genset, demand and market stabilisation, pricing stabilisation and how we see the next year planning out. And we spoke about this last quarter as well. After an emission norms change it does take some time. And I'd say over several quarters that the market is quite dynamic And pricing and demand plays out on a node by node basis.

So that is what is happening. And we are seeing volumes return to where we would expect them to be. And it's stabilising over the next couple of quarters and demand is strong at the moment. In terms of where we see our competition versus us. So Tina that's a bit hard to comment on because I think as a strategy, as a company we have decided where we want to focus and that's really our high horsepower portfolio. And we're very happy now that we have a portfolio actually that covers the whole range.

So we used to talk about up to 20 to 50 kVA, we now have products up to much higher than that. And power demands are also higher than that. So we are able to provide that power in a footprint that no one else can. And we're really focused on going to customers and talking about what we have and bringing in that awareness around our product portfolio. Because of course the competition is very, very well entrenched in the high horsepower market. And so that should be our primary focus. So that's on the Genset side.

On the international exports side, there are three main regions that we've been focused on. And that is Middle East, Africa and the US. We also have businesses elsewhere but essentially these are the three main focus areas that we have. And the intent is to build out entrepreneurs that are sustainable over time. So we have to be looking at how we can get our powergen portfolio out into these markets and whether we have the right business model and structure for that region, depending on the competitive landscape.

So you will see that bumpiness happen until we build a significant business that is continuous and that takes time, it takes investment and it takes time to build relationships. It takes time for these things to settle down. So the Middle East is an example where we've moved into having a Genset OEM in the market. We are very, very clear that that is the right move. But in the short term there will be an impact as that settles down, for example. So I hope I've answered your question

The US as well, the US is a market where we will have to continue to make investment. To build out what we need to do, to get our products certified but it is an investment that we have to do because it's the largest Genset market in the world. So we can't not be present there

Mihir: Mihir, this side. Thanks for the presentation. That was quite helpful. I wanted to understand on this smallest Genset 1000 kVA, which you -- the Optiprime series. I just wanted to get an understanding of how important it is when you compare that to other offerings which are there? How does it compare physical dimension, efficiency from a total cost of ownership? Some colour on that will be helpful and how is that a selling point, just wanted to get an understanding

Gauri Kirloskar: Sure, so in terms of a product, I think if you look at the industry in general, there is a lot of technology convergence that has happened in terms of the emission norms. So largely people have the same technology. I think the other big advantage is that because of the configuration, we can actually also ensure that we are meeting emissions compliance. For that range, where it's not applicable.

So if we do for example 2000 kVA. You saw the video where we had multiple products. We can actually be CCCB 4 plus compliant as well which no one else can offer. So it's also significant from that point of view.

Rahul, do you want to talk about fuel efficiency? So in terms of fuel efficiency, the study that we have done. We actually have IOT devices on all of our Gensets and we analysed the data and we saw that most of the Gensets that were running were running below 50% load. And that actually is not an efficient load. So what we created at that time is actually is more efficient solution. We have two engines in the same canopy. So if the load is not the full load then only one engine can be operational.

Rahul: So if you look at it from a cost of ownership, it is leaps and bounds better than anything else out there. If you were to look at the kind of platforms that we are building, specifically for Optiprime. There is inbuilt redundancy. So for example if you are a Genset owner 1 unit goes down, you don't have to replace it with another 1000 kVA, 500 kVA still works.

The other part is that if you look at oil and filter changes, for smaller engines they are drastically cheaper compared to what it would be for a larger engine. And when I say drastically, it would be like 20% cheaper, 25% cheaper. So from a cost of ownership standpoint. It leaps and bounds better. Fuel consumption will be at least 10%-15% better. So like Gauri mentioned, there is inbuilt load balancing that happens. So it will operate at the appropriate optimal load for the Genset irrespective of the overall Genset load.

For example, if it's operating at -- you compare a 1000 kVA operating at 50% load and you compare the Optiprime 1000 kVA operating at 50% load, one core will just switch off. So it ensures that you are operating at a far better efficiency than an equivalent 1000 kVA. And we are replicating this across different models. So it's not just 1000 kVA. It's also other nodes that we replicate it back to

Mihir: Understood, sure. And just second question was on the export side I understand not from a financial number perspective but from an operational perspective. How many touch points or how many distributors have gone up, in the last one year across Middle East or US for that matter? Just to understand, how is our distribution reach increasing? That will be helpful

Gauri Kirloskar: I'm not going to answer that question because I think that's far more detail than we would normally provide. But we are in the Middle East for example what I can say is that, we have had existing distributors in the region for a long time and what we've done is. we have realigned those distributors to the Genset OEM that we now have.

So instead of them working directly with us, we now have a Genset OEM that's managing that channel, which is really important because we need someone on the ground who can drive depending on the market intelligence there. Rather than us trying to do it from here and various different countries, for example in Middle East and North Africa.

In the US we have such a small base at the moment, that we will be focusing, say state wise. And depending on certain areas where we want to because it's a huge --it's a huge country. So state wise also there are different applications. There are different dynamics that play out. There are some states that are say susceptible to hurricane season. So we will have certain strategies that play out there and accordingly we will appoint distributors

Mihir: Hi. I wanted to understand when you came in, in terms of culture, how -- yes. I wanted to understand in terms of the cultural changes and the organizational changes that have happened over the last few years. If you can give us an insight into what's changed from the time you took over to now? And how does it better prepare you for your goals for 2030?

And in terms of understanding the business is a little better from a secular business, how do you make it more enduring enterprise over the next maybe 3, 5 years or longer, if you can give a sense of that?

Gauri Kirloskar: I don't know if I should answer the question on culture of my team should. But I think some of the main changes that we, I'd say, deliberately made because a lot of things also happen organically and over time when we're talking about culture. So several things. One was communication.

I think as an organization, not only in terms of external communication, but internally, were we communicating at a regular interval and very clearly to the entire company on what our goals were and where we were intending to go. And what we wanted to do? Who are we as a company? What is our strength?

And what is -- we value about the people that work there. I think that communication was very important in the beginning -- in the beginning of the 3-year journey. The second big piece of work we did was around HR policies and processes. So of course, we're a legacy organization. We've had certain processes and policies that have been in place for a long time, which may not necessarily be applicable to today's environment.

So we looked at those and we made a lot of changes there as well. I mean one of the small changes we did, for example, was moving from a 6-day week to a 5-day week for managerial employees, because we're already -- we've always been in a factory environment. So it was a 6-

day week, and we were actually having trouble finding talent because of that. So that was one of the small things we did.

The next thing was focusing on high performance. So being very clear that our performance management system was working correctly. And we were rewarding the people who were doing and making outsized efforts. So really looking at how that performance management system supports a high-performance culture.

But I think when it comes down to it, I think Warren Buffett very recently said in his Annual General Meeting about culture, just find great people and work with them. And I think really, that's what it's about, find people who are really, really passionate about what they do. You don't get these kind of results from working from 9 to 5, okay?

So you would really have to love what you do. And I think that's what we've really surrounded ourselves with in terms of the leadership team and therefore, driving that kind of passion below. I didn't understand your second question. Could you articulate it a little bit differently?

Mihir: So we've seen the business being cyclical and how do you at least even out for the cyclicality, if at all you can in terms of numbers and outcomes?

Gauri Kirloskar: So the cyclicality, actually, I would say that we've been in the last 3 years in a very strong demand environment. We've been very lucky to have been in that kind of environment, right? And as we look at what is really driving demand in spite of what is happening globally. We see a strong pull in terms of domestic growth that's happening in terms of infrastructure spend, etcetera, as well as growth in terms of the infrastructure being set up for technology, right?

So data centers and things like that. And I think, therefore, if we're bullish about that continuing, now that we've been through the emission norms, and we have the product portfolio. Three years ago, we didn't have that product portfolio. So we could have been more susceptible to ups and down, say, in the lower part of our portfolio, which is really dependent on, say, GDP growth.

So here, when we're looking at high-growth segments in the high horsepower space, I think we are much more insulated now from those ups and downs. If we look at the industrial side, it's really about key account management. And I think we've made a lot of investment in terms of time and effort and building out teams who understand specific accounts like railways, defense, navy, even the construction OEMs.

So even though we may see up and down, for example, on construction OEMs, I think these investments will happen over a longer -- I mean, the returns will come over a longer period of time, right? Like an account like defense, it's not something where you see the return happen in a year or so, it rarely plays out, and you have to keep that engagement over a long period of time.

So I think we have insulated ourselves much better from cyclicality than perhaps we were 3 years ago.

Mihir: Hi. So we have talked about Optiprime and high horsepower segment for a time now. So just wondering how -- so where do we see our...

Gauri Kirloskar: Let's start again, sorry, I was looking for you. So I didn't...

Mihir: Sure. So we have talked about Optiprime and high horsepower segment for some time. So right now, what sort of volume percentage we are in there? And when we are building apart from the cost, what kind of strategies we are putting is to get that market share over our peers?

Gauri Kirloskar: So I'll just answer the second part of the question first, which is the kind of strategy we have to compete with our peers. So one is that with the Optiprime range, of course, like we just spoke about, it's a far superior product itself. That being said, we have to build awareness around that product because to really provide, say, value in terms of take like reducing footprint, right?

If a certain project has been designed with a power solution in mind, which, of course, is not us for the day. If we are able to get in and provide Optiprime, yes, in terms of total cost of ownership, things may come down. But you don't really get the advantage of having a smaller footprint because the design of that project has already happened.

So our strategy then is that we have to really get that product out there in terms of awareness, whether it comes to who the -- whether it comes to engaging with customers or whether it comes to engaging with consultants, who influence customers. And if we can then demonstrate that with our lower footprint, we have a better product.

We're providing real value because if it's in a space where, for example, real estate is at a premium. We have a very, very big advantage over our peers. The first question was on volume.

Sachin Kejriwal: So coming to the volume on HHP side, as Gauri mentioned that now we have a complete portfolio available on the HHP side. So we have seen a growth of 18% in the volume compared to the last year.

Mihir: For entire HHP?

Sachin Kejriwal: Yes. So Rahul, you want to take that?

Rahul: Okay. Would it be like very negligible at small at this time?

Sachin Kejriwal: In terms of volume, yes. It will be very low for us right now.

Prathmesh Salunkhe: Prathmesh Salunkhe from PL Capital. Ma'am, I just wanted some clarification regarding your strategy for FY '30 that is $2 billion, right? And the Arka Group, we are also targeting $1 billion like the $1 billion company Arka on stand-alone basis. So does that include in the $2 billion? And if it's possible, can you give us some breakup on like how much it would be contributed from, let's say, powergen or how much it would be from B2B, B2C? Thank you so much

Gauri Kirloskar: So I just want to clarify that the 2 billion is a revenue target and the 1 billion goal that Arka has is a market cap target. So that's one. The one thing I have learnt in the last 3 years is not to give a break up because it never lands that way. The point of setting these big goals is to strive for something outsize. So it's very difficult for me to say this is what will come from powergen, this is what will come from industrial, this will come from, it's not going to play out that way.

The idea is to say that these are the opportunities that we see, these are the kind of efforts that we will make And, of course, over the last 3 years there has been a certain investment whether it's been in people, capacity enhancements, key customer management, key account management and that's what we feel will lead to or will give us the shot at this kind of growth. So I really encourage you to look at it that way because if I start giving break ups then we always get compared to whether that has happened or not.

And especially in this environment, I think, of course, we see the future is very bright, but there are also many things going on which we have no control over.

Renu Baid Pugalia: Yes, hi good morning team I have few questions. This is Renu Baid Pugalia from IFL Securities. My first question is on the BS V transition how has that been over the last 5 months, both with respect to the price impact in the market and acceptance from the customer side and release of the pre-buy inventory which was there in the channel. That's the first question?

Gauri Kirloskar: Okay yes BS V saw a very small pre-buy actually, but I mean compared to like a CPCB IV plus change. So BS V actually again was another emission norms change that was delayed. So it was supposed to happen in April of 2024 and then got pushed to I think October and then January.

So we had a lot of time to engage with our current customers our BS IV Customers because this kind of change is very different from powergen you have to engage with them beforehand to see what kind of new equipments they're building and whether your prototype fits in that envelope. There's also a period of prototype trials that happened which went well and I'm happy to say that for most of our customers we have been able to continue with the account or increase the wallet share of that account.

And we've also had the opportunity to bring in some new customers. There were a couple of accounts here and there that we have strategically decided to let go of because the pricing may not have worked for us. So we've taken those calls as well.

Renu Baid Pugalia: An average increase in the pricing in this BS V segment for us?

Gauri Kirloskar: 20%.

Renu Baid Pugalia: Second is coming back on the core powergen business with respect to CPCB IV transition. Initially we had some hiccups in terms of share gains, models were not available or nodes were not available across all the products, where are we in terms of availability of nodes, different nodes or products and on the pricing, have we started to see price points now tapering off because of competitive pressures or are we able to hold on to the prices?

Management 4: If you look at the availability of CPCB IV products. We haven't had too much of a challenge in terms of making our products available. As per the mandate availability of CPCB II post migration of CPCB IV. So we had more or less like a hard switch over And the CPCB II inventory liquidated very quickly.

A lot of the competition continued to in some shape or form make that CPCB II inventory available to the channel. So if you talk to some of our dealers or channel partners, that's the input that you may get, but honestly we don't see that as a challenge. Even now, I don't think availability is as much the issue, what's actually happened is that there has been choppiness in demand and so we're just trying to make sure that we plan for it appropriately. What is the second part of your question?

Renu Baid Pugalia: So just rephrasing it Availability of CPCB IV compliant product across all the nodes, because there were gaps in terms of availability of coal products at various nodes in the market versus that of Cummins or others in the market. So today are all the nodes covered up in terms of a product being available on the shelf with the consumer. And B, on the pricing side, have we seen prices consolidate a bit or they've still been able to maintain the pricing at which it was initially launched?

Management: Okay, so if you have market intelligence that we've not been able to make our products available, we'll take that feedback As far as the pricing is concerned, look the pricing is it is a WIP and it will mature. I think we're still in a phase where that maturity is coming up. And I think as we move into this financial year, we're seeing a fair amount of stability, but we'll have to keep our eyes open.

Renu Baid Pugalia: Thank you

Gauri Kirloskar: We have the Arka team here as well. They just put their mics down.

Management: Yes, hi guys. So one, there was a comment earlier that there was some write down which we'll talk about later, love to hear that. Two, capital raising what's the update. Three, Gauri for you at some point the two entities could be in some form separated, Is there any thoughts on that?

Management: So I'll give you the first two answers. There has not been any write down. We are just preparing ourselves to build a secured retail Journey and that's more granular in nature. And when you build a granular book, today we have only 2400 customers. The moment you build a granular book suddenly in a month you'll be disbursing to almost 10,000 to 15,000 customers the way we are aspiring and the model which we are building.

So when 31st March two things we did for quarter 4. One, as part of our strategy financial warehousing is important which is something called direct assignment of our assets. So direct assignment is when you sell your asset, you book the income and it goes into a bank's balance sheet, but you continue to collect from the customer.

And whenever a customer forecloses the loan, that income needs to get reversed in our books as well. Because the income happens on an upfront basis and we had to do, this has to happen on a monthly basis. Now last year there was a large direct assignment imperative and initiative we took. So almost close to 1,500 crores of our book we sold, but that monthly reconciliation had to get true up on 31st of March.

So that true up has happened. Going forward every month a true up will happen on a direct assignment book, because you have to ensure that the matching revenue and matching cost comes when a foreclosure happens from the customer. That's one part. Second is we as a strategy have stopped unsecured book lending.

So we had Fintech partnerships which is completely stopped. But when I came in I saw the book and for abundant caution, we raised the provision coverage out there because I think unsecured book is something, at least, personally I don't understand well and as a strategy we will not pursue.

So if you look at the balance sheet provision coverage that stands at about 65% and the unsecured book provision coverage is as high as 85% to 90%. So these are the two things which we did in quarter 4 and that's what I think Sachin was.

Sachin Kejriwal: What were the amounts in the two specific cases?

Management: So direct assignment the true up will be close to about 12 crores to 13 crores and the provision which we increased will be close to about 15 crores which actually helps us to build a very Strong balance sheet into the future. In spite of these two one times, our profit after tax grew from 69 crores to 80 crores on a year-on-year basis.

It's very important when you build granular book. Spick and span controls are important and grid is more important than glamour. So I think that is very important in retail business.

Analyst: You have our full support on that.

Management: Thank you. I'll leave the third question to my Promoter.

Management: The second question.

Management: Capital raise? Okay. I'll put it this way. Our business is a capital guzzling business, without capital it's difficult to sustain. But the right business model is required. So for the next 6-9 months the three things which we spoke about, one is the ST Lap which is INR8 to INR25 lakhs secured loan against property. That piece of business, which is a northward of 16% yield. The second is pre-owned wheels financing. That piece of business is also a ticket size of INR8 lakhs to INR15 lakhs, again, 16% northwards.

And the third one, which we are incubating right now is genset financing because any business in granular retail is 16% yield and above. I would like to build that book now for the next 6 to 9 months. Because if you have that critical mass, then you will be able to attract the right kind of capital. So capital raise is something, which we will look at somewhere around January. Preparation is pretty much there and pretty much in touch with most of the private equity guys, but it's a Kirloskar brand. We have to chose responsibly with whom we need to partner, but nothing before Jan.

And as we speak, our Tier 1 capital is 20%. And the growth aspiration, this is not the time to push heavy growth. This is the time to ensure that we build the distribution, the collection infrastructure, the risk management policies and the technology for the next 6 to 9 months. Once that mass reaches INR1,000 crores, I'm expecting it to reach about INR1,000 crores in the next 6 to 9 months. I think that will be a very good time to look at capital actually.

Gauri Kirloskar: So Jeetu, I think just taking off from what Samrat said, and you missed the presentation, but we spoke about what we wanted to do in the first phase of Arka. And now we're at -- which is the last 5, 6 years, and now we're at a phase where we're pivoting to build this retail book, which obviously demands and is a very different sort of animal. And then we will start to speak to possible partners. So over the long term, of course, the intent is that the business should stand on its own. But we will follow the path that Samrat has just articulated.

Analyst: Okay. Yeah. My question is, firstly, on the technology side, you highlighted that we have developed this 2 engine technology on the Optiprime series, 1,000 kVA and above. Do we also offer a single engine technology that our competitors provide, and how difficult or easy it is to transition towards that technology?

And my second question was more on the initial remarks that you we're giving upon the channel distribution side that we are doing some channel restructuring for the B2B business. So what exactly, if you can throw some light on what is the exact general distribution remodeling that we are doing out there?

And third question was on the B2C side, where historically, our margins have been slightly volatile. This particular quarter, we have been able to clock double-digit kind of margins. So what are the sustainable margins on the B2C side of the business? And how do we see that particular business going? So these are the 3 questions from my side. Thank you.

Gauri Kirloskar: Yes. Thank you. So on the first question, we have a single engine solution up to 1,500 kVA. So we go up to 1,500 kVA on the single engine. And then beyond that, we offer Optiprime. And actually even below 1,500, we do offer Optiprime as well just because of the advantages that it has over a single-engine solution.

So that was the first question. Your second question was around, the channel restructuring. So I think what was very important when you look at our strategy, whether it was on the high horsepower side or in terms of the emission norms change that happened. And what I mean by that is that our entire portfolio moved from mechanical to electronic engines.

With that happening, what we required from either our sales channel or our service channel for certain investments. For example, on the sales side, our GOEM partners would have had to be willing to make investments to assemble high horsepower gensets. On the service side, there were investments required in terms of making sure we had enough service engineers, investments in certain tools to be able to fix the electronic engines.

And so that was the channel, let's say, rationalization that had to happen. And if you're making investments, you also have to be here for a certain size. So are there service dealerships, for example, that would be more viable from a profitability perspective if they were consolidated? Are some of the conversations we had as well? This work has largely been done in the last 3 years. It's not something that's really continuing beyond that.

But the majority of it has been done in the last 3 years. And on the distribution and aftermarket side, actually, it's been a very significant restructuring. But in spite of that, we've seen the growth as well, which basically means our hypothesis of having a certain size dealership has played out for us.

Sachin Kejriwal: Yes. Coming to your B2C side of questions. So you must have seen a very solid rebound from B2C performance. And this has happened predominantly because you are aware that we were consolidating our 5 small plants in Ahmedabad to a Sanand location and creating a mega site. So that work has been completed by end of quarter 3 and now plant stabilize, and we are seeing full production from that plant. So that helps us the availability of the product, which improved our sales.

And secondly, on the cost side, also we are working continuously on the B2C side. So both the variable cost and the fixed cost. So half of the work has been done, and the remaining will be completed in the next couple of quarters. So in terms of profitability growth and the EBITDA growth for the B2C business, we aspire to grow both in double-digit in coming years.

Analyst: Last one question on the market share side on the Powergen. I think so during the last quarter, you had highlighted some sort of a market share loss. What is the status now at this point of time? Have we been able to recoup the market share? Or where does our market share stand if you can briefly highlight?

Gauri Kirloskar: So market share during the submission norms change, we expect that it will move up and down and stabilize somewhere. I think the intent that we have as a leadership team is are we able to defend our LMHP market share? And are we able to see steady progress on the high horsepower side. There are node-by-node dynamics that play out depending on demand for that node, depending on whether your engine platform is at an advantage of that node or not.

I would say let's just wait a couple more quarters to see where it stabilizes. We're just at the beginning of that stabilization happening. And then I would like to comment on market share. I think what I can say is that on the high horsepower side, we are seeing those steady increases, and that's really what will be significant for us because that's where the value is.

Analyst: So just going back to the 2B2 strategy. Is it the existing product platforms and it's about market share gains both domestic and international to really reach their -- its new platforms, new products. And there was a mention of inorganic as well in that slide. So it's new energy storage. Just thoughts of there. How does that kind of fit into the 2B?

Gauri Kirloskar: Sure. So overall, I think our vision over the next 5 years is to really be a global technology leader when it comes to power solutions. And what that obviously means is now we're not saying that, that specifically has to be power coming from engines, right? And as a company, in our 2X-3Y strategy as well, we had articulated our 4 technology tracks, which we wanted to make progress on to be able to say that if we are in a conversation with a customer who, for example, is very sensitive to ESG requirements or is in a remote area where say fuel is not available.

Do we have the portfolio of products and technologies and solutions where we are able to customize and design a solution for them? So I think what's really important for us in the next 5 years is to see whether those technologies are something that we invest in to develop in-house, whether we partner with someone or whether we buy, right? So build borrower buy would be the analysis that we do when we're looking at how we need to make progress along those technology tracks, but it's really critical that we make that progress.

If you look at the first track, which was on internal combustion engines, we really, in the last 3 years, have made significant progress in terms of being fuel agnostic and having engines that can really run on diesel. We have the largest gas portfolio in the market in terms of Gensets. We've done demonstrations for ethanol and methanol.

We've done hydrogen blends, but these things have to also become -- these fuels have to become available. They also have to be economically viable for the customer. But we are able to provide that. When it comes to the rest of the technology tracks, whether it's batteries or Microgrids, there is significant progress we have made, but there are also areas where maybe the technology is a little further out, we have to keep an eye on it and we're continuing to do that.

So that's really, let's say, where we would focus maybe some of the acquisitions if we have opportunities in those spaces. The second area is maybe if it gave us access to a certain geography, if there's a company which is really well entrenched in the market where we're not present that would be something maybe that could be potentially interesting for us.

So there is definitely an inorganic element, which was not there in the last 3 years. In terms of our product portfolio and investing in new products, I'd say it's more on the technology tracks that is not engines. Because on the engine side, we really have actually arguably the widest range in the world, going from very small at 3 kVA to very large engines. And there's really no one who has that whole range. I hope I answered your question.

Analyst: And just last one. If you were to just take a wild guess, internal combustion would still be 95%, 99% in 2030? Or you see a transition which could be 5%, 10% portfolio, just a wild guess?

Gauri Kirloskar: So I'd say maybe it will be 80%. Yes. Like I think we are building our Microgrid solutions. We are offering that. And I think we should aggressively pursue some of those conversations as well. So I think we will be able to provide some alternate solutions as well.

Analyst: You've been through part 2 partner transitions, one in the Middle East, one in South India, about 6 months ago or have those played out, are they scaling back to expectations? And is that looking good?

Gauri Kirloskar: Yes. So there's been no problem on the domestic transition. I think that has gone largely when -- on the Middle East side as well, we have seen some -- there's a transition happening for sure. But the -- essentially, what we've done is we had existing distributors in Middle East and North Africa that used to work directly with us, and now they're working through that partner.

So of course, when there's a change in people, there is a bit of bumpiness or uncertainty. And I think a lot of those questions has even come while we've changed teams, right? And whether it's been at Kirloskar Oil Engines or at Arka. But I think what I would say is uncertainty or that rockiness is not always bad.

And we are very clear that, that is the right move to make. We have to have a Genset OEM in the Middle East because that enables us to be close to the market. And if we require the flexibility to, say, assemble Gensets in various regions over there, we have that partner for us, and they are familiar with the industry as well.

Management: There are a couple of questions from webcast audience. Most of the questions are answered. There was a question on Arka Listing, Arka AUM. We have answered that. Just 2 more questions, and I will stop after that.

One question for you, Gauri, is what were the key misses you think for the 2X-3Y journey? And how are we planning to overcome those in the next phase of growth?

Gauri Kirloskar: Yes, that's a great question. I'd say, if you look at the way that we articulated our strategy, there was -- the biggest miss, I guess, was on international because we had said that it will be 30% of our revenues. And I'd say that the learning that I've had over the last 3 years on international, is that you could potentially see short-term opportunities, but it's really, really important that you invest time to find the right partners to build out a business that can last the next 100 years.

And I think what I took for granted was the kind of brand equity that we enjoy in domestic markets, people just don't know us abroad, right? So there's far more time required. There's far more patience required. We will have to make investments and investments before we see that return on international. So that's really been my biggest learning.

I think having said that though, our international business has almost doubled in the last 3 years in spite of a lot of the structural changes that we had to make, whether it was appointing partners or looking at how our teams are structured, abroad. So there's still a lot of work that we have to do, but I think that would be my biggest learning.

Management: Yes. So one more question. Which segments are driving demands in PG segment, both domestically and internationally? Also in international, do you see any signals that, in particular regions, you are seeing a high growth?

Gauri Kirloskar: Okay. So on the domestic front, the demand is really coming from infrastructure, when I mean that, it means big real estate projects, whether it's commercial buildings or large residential projects and of course, the data center segment that would be what's driving most demand. Even in the international segment, data center demand is huge. So that is really what is driving it in general.

Now to answer that question is difficult because in every region, there are different dynamics. But I'd say, in general, that's where the demand is coming from.

Management: Okay. There are questions on subsidiary financials. Please note, we will be publishing these soon along with our annual accounts. So I think in the interest of time on that note...

Analyst: One question. Just on the capital allocation, like earlier, we had announced that we're probably looking to set up a new engine manufacturing probably with the capex of INR700 crores. So like in our next 5-year journey, you would probably -- if you can give a perspective like to reach $2 billion, what kind of capital allocation we'll be doing on manufacturing side and other areas? That was my first question.

Second question was on like your slide mentioned 2 things. One was execution of manufacturing strategy. So what are you probably trying to convey? And second, in FY '26, probably FY '27, you were seeing complete execution of technology road map. So what are the milestones you're probably looking at in what areas? So these are the two parts.

Sachin Kejriwal: So I will take your first question. So on the capital allocation, as a company, we are committed for the new product development and capacity enhancement. So in FY '25, we have invested around INR520 crores. So out of this INR380 crores was invested in KOEL and INR140 crores got invested in our B2C business, which is LGM.

As I mentioned that we have done the plant consolidation work there, wherein the 5 plants in Ahmedabad location got converted into 1 mega site consolidation. So we invested around INR140 crores there and created a capacity.

Yes, I will go to the future. So I'll just and on, we invested INR380 crores. So out of that INR90 crores went towards the product development, INR90 crores went towards the capacity enhancement on the sustainable side and INR20 crores went on the IT digitization.

And as you're aware that in the -- last quarter, we announced that we are going to invest another INR700 crores for capacity enhancement in our existing plant at Kagal that will go towards the product development and capacity enhancement. And apart from this, another INR80 crores to INR90 crores will go towards that Navy project, which we won very recently.

And another INR200 crores will be allocating towards the acquisition in line with our technology track and to the $2 billion growth strategy. So in a Nutshell, we are planning to invest around INR1,000 crores in the next couple of years in this business.

Gauri Kirloskar: So when we mean execute the technology road map, it's the technology tracks that we were talking about that we really -- when I answered Sandeep's question, I think that was what I was referring to. And I think the first one was make sure that we execute on the manufacturing capacity enhancement. Hope that clarifies. Yes.

Management: Okay. So we take that as a last question. Thank you all for joining us. Please join us for a brunch after the meet.