



“Kirloskar Oil Engines Limited
Q3 & FY '26 Earnings Conference Call”

February 12, 2026



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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 Q3 and FY '26 Earnings Conference Call hosted by Antique Stock Broking Limited. As a reminder, all participant lines will be the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Amit Shah: Yes. Thank you, Palak. Good afternoon, everyone. On behalf of Antique Stock Broking Limited, I welcome you all to 3Q FY '26 Post Earnings 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 of the company; and Mr. Sachin Kejriwal, CFO of the company.

I would 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: Yes. Thank you. Good afternoon, everyone. Thank you for joining us today. I'll reintroduce my team on today's call. Rahul Sahai is here. He's CEO at KOEL; Sachin, who is the CFO; Kiran is the CHRO; Farah, the Company Secretary. From Arka, we have Samrat, who is the Managing Director at Arka. I will begin with business and operational updates. Sachin will then provide a brief overview of the financial performance, following which we will take questions.

I'm thrilled to report that Q3 fiscal year '26 has been a standout quarter for KOEL. We delivered our highest ever third quarter sales, capping off the highest year-to-date sales in our history. This was powered by strong performance across all segments with 35% year-on-year sales growth for the quarter and 25% year-to-date sales growth. That's double-digit growth in every single business.

On top of that, robust operational efficiency drove meaningful improvement in our EBITDA margins, while our cash conversion cycle improved compared to the prior year. For the quarterly numbers, the domestic Power Generation business was a standout performer, delivering sales of INR603 crores, which is a 44% growth over the previous year. Growth was primarily driven by our retail business in Power Generation.

The High Horsepower segment recorded substantial growth of 235% over the previous year. The domestic industrial business witnessed a significant momentum shift, recording its best quarter at 41% growth over last year with sales of INR390 crores. This growth was fueled by strong performance of Defence and Nuclear and Marine segment.

Construction & Mining segment was a bit slow this quarter, but we see it as a temporary phenomenon. The Distribution business Q3 sales stood at INR238 crores, registering 14% growth over the previous year. This was the highest ever quarter for the Distribution &

Aftermarket business unit. The International business also reported 26% year-on-year growth in Q3.

Now coming to the geographic mix. Domestic sales stood at INR1,243 crores, which is a 38% growth year-on-year and export sales were at INR128 crores, that's a 14% growth year-on-year. As I had mentioned last quarter, this quarter saw KOEL stand-alone B2C integration into LGM. Strategically, this integration of Fluid Dynamics business marks a milestone, enabling focused growth in the segment while unlocking synergies across LGM operations. With B2B strength persisting and tailwinds in industrial, we're well positioned for the balance of fiscal year '26.

Now if we go to the consolidated business performance. B2B consolidated reported INR1,396 crores revenue for the quarter, registering 36% growth year-on-year. Fluid Dynamics, that's the B2C business, reported Q3 revenue of INR249 crores, which is an 18% growth year-on-year. Financial Services, that is Arka, reported revenue of INR227 crores, 7% growth year-on-year. Net interest margin at Arka grew by 28% year-on-year to INR107 crores in Q3.

In closing, Q3 underscores our momentum, record sales, margin gains and operational discipline across the board. In Power Gen, it has been a strong quarter for KOEL. And what is also heartening to see is the progress that we are making against industry numbers. Our numbers clearly indicate market share improvements across the board. This is in line with our plans that we set out for ourselves. All the other business segments have shown growth.

At Arka, we are successfully granularising the book as planned by building a retail portfolio focused on used wheels and small ticket loans against property. Our ground presence is ramping up to match this ambition with 110 branches and approximately 1,600 employees now active. We see a great future for this business and aspire to build an institution in the financial services space, and I'm confident that the management team at Arka will deliver on the plans that have been laid out.

Operationally, we continue to make steady progress and are advancing our expansion plans in line with our strategic roadmap for all our business segments. With a robust product pipeline and sustained focus on strengthening our existing segments, we remain confident about the opportunities ahead. We remain firmly aligned with our long-term strategy and our commitment to sustainable growth. I'd now like to request Sachin to give a quick update on the financial performance.

Sachin Kejriwal:

Good afternoon, everyone, and thanks, Gauri, for the update. I will give a quick overview of the financial performance for stand-alone and consolidated business. The results and the presentation for today's call has already been uploaded on the exchange and our website.

KOEL delivered a strong financial performance in Q3 FY '26 with the company registering its highest ever third quarter sales and achieving record year-to-date revenues. Year-to-date margin performance improved on the back of operational efficiencies, while prudent working capital management supported an improvement in cash conversion cycle compared to last year.

Coming to the financial performance overview, I will start with stand-alone performance first for the quarter. Net sales at INR1,371 crores for Q3 FY '26 versus INR1,015 crores for Q3 FY

'25, 35% increase year-on-year. EBITDA at INR169 crores for Q3 FY '26 versus INR106 crores for Q3 FY '25, 59% increase year-on-year. EBITDA margin at 12.2% for Q3 FY '26 versus 10.3% for Q3 FY '25.

Net profit, excluding exceptional items at INR102 crores for Q3 FY '26 versus INR57 crores for Q3 FY '25, that is 80% increase year-on-year. Cash position, net of debt and including treasury investments stood at INR348 crores.

Our working capital position continues to remain healthy with payables at approximately 59 days and receivables at around 44 days. Inventory levels stood at approximately 66 days, reflecting an improvement over the same quarter last year. Supported by disciplined working capital management, led by improved inventory and receivables efficiency, the overall cash conversion cycle has strengthened year-on-year.

Here is further breakdown of the stand-alone sales for the quarter. The B2B sales, that is KOEL stand-alone sales post the restructuring were at INR1,371 crores, that is 35% growth year-on-year.

We registered a double-digit growth across all the business units. So within B2B, Power Gen was at INR603 crores, 44% increase year-on-year. Industrial was at INR390 crores, 41% increase year-on-year. Distribution & Aftermarket was at INR238 crores, 14% increase year-on-year and International business of B2B was at INR140 crores, 26% increase year-on-year. Please note that on October 10, we completed the transfer of our B2C business to LGM through the slump sale route.

Accordingly, the financial performance for this quarter reflects the impact of this restructuring. For ease of comparison, top line without the restructuring effect on like-for-like basis would be at INR1,503 crores for Q3 FY '26 versus INR1,154 crores for Q3 FY '25. That is 30% increase year-on-year.

Now looking at consolidated performance for the quarter. Revenue from operation at INR1,873 crores for Q3 FY '26 versus INR1,449 crores for Q3 FY '25, 29% increase year-on-year. Net profit at INR126 crores for Q3 FY '26 versus INR67 crores for Q3 FY '25, 90% increase year-on-year. Please note numbers reported are for continuing operations only and excluding exceptional items.

Now let us have a look at consolidated segment performance for the quarter now. B2B segment revenue for the quarter was at INR1,396 crores, which is 36% growth year-on-year. The segment PBIT was at INR137 crores, reflecting approximately 90% increase year-on-year. B2C segment revenue for the quarter was at INR249 crores, which is 18% growth year-on-year. The segment PBIT was at INR18 crores against PBIT loss of around INR4 crores for the same quarter last year.

Financial Services segment revenue for the quarter is at INR227 crores, reflecting 7% year-on-year growth. The segment PBT was at INR17 crores. Please note number discussed here represent continuing operations only. The PBIT and PBT numbers are before exceptional items.

To conclude, company has delivered a strong quarterly performance, complemented by solid year-to-date growth, supported by sustained market demand and positive momentum across our core product segment. Our recent product launches have been encouraging market acceptance, and we remain on track with the strategic initiative under our B2B vision. With that, I will open the floor for questions.

Moderator: Thank you very much. The first question is from the line of Jason from IDBI Capital. Please go ahead.

Jason: My first question just pertains to, just wanted to know the volume growth, both for Y-o-Y and Q-o-Q, if you could highlight for this quarter?

Gauri Kirloskar: Yes, just one second.

Sachin Kejriwal: So, for Power Gen, our volume growth has been 25% compared to the last year.

Jason: Okay. And Q-o-Q, sir, there must be a decline. So if you could give that number as well?

Sachin Kejriwal: Sorry?

Jason: Q-o-Q sequentially, sir?

Sachin Kejriwal: Yes, it's yes, 15% decline.

Jason: 15% decline. Sure. And sir, next, just wanted some color on the response for the HHP segment, some details about it. How are you creating market inroads and just some color on the response for the HHP segment?

Rahul Sahai: Yes. So, we've spoken in the past about our product portfolio and the initiatives that we are running on the HHP side. Today, we have products that, for the HHP that start right at 1,000 kVA and go right up, what we are now seeing is demand for our 2,500 and 3,000 kVA products also. So, I would say the market has always been there, but we are focusing on driving initiatives in line with the product readiness that we have now. And hence, we are essentially gaining momentum there.

Jason: Sure, sir. And sir, if you could give the numbers for the, if possible, just for a like-to-like comparison for the FMS and the WMS segment as well, would that be possible for Q3?

Gauri Kirloskar: We're not breaking that out.

Moderator: The next question is from the line of Mihir Manohar from TRUST Mutual Fund.

Mihir Manohar: Congratulations on great set of numbers. You mentioned about the growth for HHP for this quarter at 230%. What's the growth on a 9-month basis for the HHP segment? And what's the absolute number that we are now clocking on broadly yearly basis for HHP?

Gauri Kirloskar: So, the number that we're sharing is the 235%. We're not breaking it out by segment for HHP value.

- Mihir Manohar:** Sure. What would be the growth on a 9-month basis?
- Sachin Kejriwal:** It's 132%
- Mihir Manohar:** Sure. Understood. Correct. So basically, which end-use applications are driving this growth for HHP?
- Gauri Kirloskar:** So it's pretty broad-based, but essentially, the main end application is infrastructure. What we mean by infrastructure is any of these large developments that you see being built, whether it's commercial or residential. And of course, it includes some data centre customers as well.
- Mihir Manohar:** Sure. Second question was on the gross margin side. I mean when I see gross margins for 3Q versus 3Q and on a 9-month basis, the general understanding is that HHP should have a higher gross margins. And if HHP proportion is increasing, then I mean, how could it, are we, should one expect gross margins improving as the HHP proportion goes up in revenue going ahead?
- Sachin Kejriwal:** Yes, that's right. But right now, our gross margin is flat at 35% margin. But in future, as you see more sales from HHP, definitely, the gross margin should improve.
- Mihir Manohar:** Sure. My last question was just on the data centre side. I mean we are getting business on the data centres, I mean, various interactions and all. But however, when we do a channel check, it becomes difficult to get a sense as to if Kirloskar Oil products are used, generally MNC names which are coming out. So somehow to understand the difference, which is coming in channel checks versus the business that we are building in?
- Rahul Sahai:** Yes. I think essentially, your channel checks are an informal district to get information. The whole information will only be ready once we disclose our results. So it's hard for us to actually bridge because we're not really sure what your, the information you're getting on the channel check.
- Moderator:** The next question is from the line of Harsh Shah from Axis Capital.
- Harsh Shah:** Congratulations on a strong set of numbers. So my first question was on the industrial side. So this quarter, we have the encouraging growth led by Defence, Nuclear and Marine segment. So what is the outlook here? And when do you expect the pickup in Construction as well as Mining segment?
- Rahul Sahai:** Yes. So we saw a quarter where a lot of our OEMs were correcting their inventory. So the Construction & Mining segment was a little subdued because of that. In spite of that, however, we've grown. So the segment overall has performed reasonably well. And we expect that going forward, things will correct for themselves because the correction, the inventory correction seem to have happened.
- Harsh Shah:** Okay. And second question was on the Distribution network. So Distribution revenue has also grown during this quarter. So what is driving this growth? Is it the asset base or the shift from organized, shift to organized Power Gen?

- Rahul Sahai:** Yes. So we've always said that our focus areas for driving profitable growth will remain to be more complex products, Aftermarket and International. Now more complex products in case of, for example, Power Gen are in the form of our Optiprime range of products, our HHP products.
- And that has eventual impact on the Aftermarket business also. So we are seeing more and more of that impact coming in. Of course, the Aftermarket team is driving a lot of initiatives around growing the service penetration as well, both through increasing the number of AMCs as well as ensuring adequate capability for breakdown SRMs, Service Requests.
- Harsh Shah:** Okay. Okay. And sir, just one last question on the stand-alone EBITDA margin. So now that we have shifted the B2C business to a subsidiary. So should we see margin improvement here? Or is it expected to remain at similar levels?
- Rahul Sahai:** So we will see a slight improvement in the EBITDA margin with this move from B2C business to LGM.
- Moderator:** The next question is from the line of Suraj from Catamaran.
- Suraj Malu:** I have 2 questions. The first question is from a global landscape, are there opportunities to do contract manufacturing for any of the global Power Genset companies with Caterpillar, Generac or Kohler for Kirloskar Oil Engines.
- Rahul Sahai:** I mean there may be opportunities. I mean, but we will figure out the opportunities that work for us as per our strategy. So there is nothing further to disclose at this point.
- Suraj Malu:** Got it. But would we be willing to take up those? Or would we be more of willing to sell these under Kirloskar Oil Engine brand name?
- Rahul Sahai:** So our strategy varies region to region. We won't be able to disclose that because that's proprietary information. But we would be open for what makes sense for the company.
- Suraj Malu:** Got it. Got it. And next question is you mentioned now you have a product for data centre, right? So what kVA or MVA would this product be? And would it be Optiprime or a single engine product?
- Rahul Sahai:** So it starts, I mean, so we have a variety of different products. Data centres actually start buying gensets right at 400 and 500 kVA also. And we've been supplying to data centres right through today, some of the units that we are looking at are 2,500 kVA and 3,000 kVAs also.
- Suraj Malu:** And is it single engine?
- Rahul Sahai:** Our single units right now go up to 1,500 kVA, especially let me just correct that. Our high-speed single engine units go up to 1,500 kVA. We have engines that go to 10 megawatt.
- Moderator:** The next question is from the line of Palak from MIV
- Palak:** Just addition to the previous participant question. I understand that with the growing contribution of HHP, we will see margin improvement, gross margin and operating margins. But were a

specific reason that this quarter, both the gross margin and the operating margins saw some pressure on Q-o-Q basis? Are we seeing some commodity price pressure due to product mix?

Sachin Kejriwal: So, on a quarter-on-quarter basis, it was a product mix and operating leverage loss impacted by EBITDA compared to previous quarter.

Palak: When we say product mix because of the, I mean in Industrial also, we have a certain segment. So within Industrial, there was the product because if I look at overall, the contribution of Power Gen, Industrial has been constant to, I mean it's been stable at a stand-alone level. So can you get a bit specific of when you say product mix?

Sachin Kejriwal: Yes. So we don't give those details, but definitely, the product mix in all the business units has impacted for this quarter.

Palak: Okay. And are we seeing any pressure due to commodity prices and which are the major commodities that we use to manufacture the product?

Sachin Kejriwal: So we are keeping a close watch on that. And if you look at our gross margin, that has remained flat. So we are taking the appropriate action on those commodity price increase.

Palak: When I look at on a Q-o-Q basis, gross margins have declined.

Sachin Kejriwal: I don't think so. It's just a 50 basis point dip compared to the previous quarter, and that is because of product mix.

Moderator: The next question is from the line of Saif Sohrab Gujar from ICICI Prudential AMC.

Saif Sohrab Gujar: So there is an exchange filing about incorporation of Kirloskar Advanced Systems. Can you highlight what specific is the plans with respect to this entity? How do you look at it, the next 2 to 3 years?

Rahul Sahai: Yes. So there is a lot of specialized work that we are doing with our government customers, such as Defence and Railways. Now that work is slightly different from our core engines business. It has a lot to do with system integration and in case of Defence, there's Defence contracting kind of work. We felt it best to carve that work into a separate business entity, and that entity is called Kirloskar Advanced Systems Limited.

Saif Sohrab Gujar: And the filing also mentioned about unmanned systems. So any adjacencies, how do you look at that? So are you going to expand to or it's, again, Power Gen related to unmanned systems you're looking at?

Rahul Sahai: So we are not at a point where we can disclose that because that information is still proprietary. At an adequate time, we can speak more about it.

Saif Sohrab Gujar: Sure. And just one quick one on the employee cost in stand-alone. That this quarter is at 25%. So any specific reason? Does this represent more of headcount addition or there is some one-off maybe relating to gratuity or something like that?

- Sachin Kejriwal:** So it was a mix of both headcount and gratuity.
- Moderator:** The next question is from the line of Sourabh Arya from Oakland Capital Management.
- Sourabh Arya:** Congrats team for the good numbers. The first question is, let's say, till now, our focus from export side has been Middle East, Africa. And, but now that we have this EU deal, and we have clearly avoided focus in Europe till now. So will there be any change in strategy in light of this EY-FTA?
- Rahul Sahai:** So I wouldn't say we have a change in strategy because geopolitical movements keep happening. From a company standpoint, obviously, these changes are inputs into strategy, but our strategy, by and large, remains similar. We continue and remain committed to the Middle East and the African markets. We are studying each region and trying to develop an appropriate strategy that covers our capability, capacity and coverage for each region.
- Sourabh Arya:** Okay. This is fine. And so we won some large orders of NPCIL and Marine, I think. So is there some execution expected from that in next few quarters or it's already part of execution in industry?
- Rahul Sahai:** So it hasn't been part of the execution until now. These are for large gensets of 6.3 megawatts each, and we will be executing them going forward. So none of them are executed in Q3.
- Sourabh Arya:** Okay. And that would be part of Industrial segment only?
- Rahul Sahai:** Yes, that's part of our Nuclear segment under the Industrial business.
- Sourabh Arya:** Okay. And can you give some color how that execution would be like what is the size of it? Will it be done in 1 year itself or it's spread over 2, 3 years?
- Rahul Sahai:** So the overall order value that we have spoken about earlier is INR798 crores in basic value. We have time lines of 2 years from now. I can't give more details around that in terms of execution at this.
- Moderator:** The next question is from the line of Krish from Crosseas Capital Markets Private Limited.
- Krish:** I just had one small question regarding Kirloskar [inaudible 0:29:38]?
- Gauri Kirloskar:** There is a lot of background noise, so we can't hear you.
- Krish:** Yes. So my question is regarding Kirloskar Group in general. So Kirloskar Chillers is a private limited company, which is, as per my knowledge, is not a part of any of the listed companies. So is there any plan to take it as a subsidiary into any of the listed companies or to separately in the coming if you could answer that.
- Gauri Kirloskar:** So thanks for your interest, but because this is a Kirloskar Oil Engines earnings call, I won't be able to answer or address that question here.
- Moderator:** The next question is from the line of Prerit Jain from Motilal Oswal.

- Prerit Jain:** Yes. So I have 2 questions. My first question is despite the B2C segment going out of financials in the current quarter, the other expense still seem to be at a higher side. So any specific reason for that?
- Sachin Kejriwal:** No, it is related to B2B business. So there's no specific reason that why it is going up.
- Prerit Jain:** Okay. Got it. And my second question was on the domestic Power Gen business. So in the PPT, it was mentioned that it was driven by LHP supported by the incentive schemes. So can you please highlight which incentive schemes are these and whether these numbers are sustainable?
- Gauri Kirloskar:** So that's our retail business, the channel and the retail business incentive schemes are part and parcel of the business. So it's just those incentive schemes that are running, nothing in particular.
- Moderator:** The next question is from the line of Palak from MIV.
- Palak:** Sir, just a follow-up question. Is it possible for you that you can give some sense of contribution from LHP, HHP, MHP in our Power Gen segment?
- Rahul Sahai:** So what I would say is that most of our business continues to be in the retail business. A lot of the retail business is LHP. At this point in time, the rest of the information is proprietary. So we won't be able to give out specific splits.
- Palak:** Okay. So are we changing some significant shift towards HHP in terms of revenue contribution?
- Rahul Sahai:** The answer to that would be yes because you can see that from the growth numbers, the HHP is growing at a faster rate.
- Palak:** Okay. And in case of Industrial segment, last 2 quarters have been very good for us. I mean is it because of the big orders that we have received in Defence, Marine and Nuclear? I mean how sustainable is this growth number for us?
- Rahul Sahai:** We will continue to focus and do our best. And this is an outcome of that. It's not execution of 1 or 2 single orders.
- Gauri Kirloskar:** So what I would add is that from the large orders that we have mentioned that we've got, this is not to do with the execution of that. But if you remember a couple of years ago, our strategy was to look at key account management in a very focused way. And also we had identified certain white spaces. So that's why you're seeing this kind of growth, and we hope that we can continue to aspire to these kind of growth rates.
- Palak:** And just do you have any guidance for a growth number for next 1 or 2 years? Or any comments on margins that we are targeting?
- Gauri Kirloskar:** We stated a 5-year strategy, which is to be a \$2 billion company by fiscal year '30. And we've also said that we hope to continue to improve margins over that time because our focus areas continue to be Advanced products, Aftermarket and Exports where these typically are the margin levers in our industry. So that's the direction that we're giving in terms of where we want to grow on the revenue and margin front.

- Palak:** So is the guidance for the consolidated entity or for the stand-alone business?
- Gauri Kirloskar:** Consolidated without Arka.
- Palak:** No, I'm saying the guidance that you have given is just for a consolidated entity or is it for stand-alone business?
- Gauri Kirloskar:** For the B2B and B2C business.
- Palak:** Okay. And anything specifically for B2B business?
- Gauri Kirloskar:** No, we have not broken it out that way.
- Moderator:** The next question is from the line of Umakant Sharma from Viansh Ventures.
- Umakant Sharma:** Congratulations on a good set of numbers. I've just got 2 set of questions. Firstly, on the Arka, could you just talk a little bit about the current book split between the retail and wholesale? And also, if you could throw some color around the asset quality that you're observing?
- Gauri Kirloskar:** Samrat, would you take that question?
- Samrat Gupta:** Yes. Currently, our wholesale book is INR2,600 crores Assets under Management. And our total Assets under Management will be in the range of INR7,600 crores, so the rest of the book will be retail or SME lending in nature. And pure retail, which is basically ticket size of about INR15 lakhs in small ticket loan against property and used vehicle financing is about, sorry, as on 31st December is about INR328 crores. And asset quality, our GNPA is about 1.2% and NNPA is about 0.3%.
- Umakant Sharma:** And could you just talk about this asset quality for the last quarter? What was that number?
- Samrat Gupta:** Last quarter, asset quality was about 1% and NNPA was 0.2%.
- Umakant Sharma:** Got it. Got it. And just coming back to the main core business, like we've been talking about the HHP segment for a while now. Gauri, if you could just spell out when can we start talking numbers around the HHP, when are we aspiring, from articulating those numbers out, when are we looking at that?
- Gauri Kirloskar:** Sorry, you mean like segment-wise numbers, when will we articulate?
- Umakant Sharma:** Yes. I'm just, the reason I'm looking at is since we have launched this product, we have entered into HHP for about, almost about 2 years. I just wanted a sense as to when are we thinking of communicating in terms of numbers, what are we doing on the overall Genco business from the HHP side?
- Gauri Kirloskar:** Yes. We haven't thought about sharing those numbers yet because we are sharing growth numbers across this segment, which is obviously a very new segment for us. A couple of years ago, we had zero market share. And the market shares are, will be incremental quarter-on-quarter, and it's not always linear. So I think the growth rate right now is sufficient as long as

we are showing good growth in that segment and traction in that segment. And at least as a management team, we track, node by node incrementally if we're making the progress that we should be making.

Umakant Sharma: Got it. And could you also just touch down if we are looking at, I know you broadly touched upon it in one of the previous participants. But are we seeing incremental, like I think we have, in your previous call, you highlighted, right, we have tracked the Middle East bit, at least in terms of the international side. Now are we looking at exploring other international markets? Or would we want to be looking at scaling up some of the places where we have got the market placement right?

Gauri Kirloskar: So we are looking at places other than the Middle East, and we have been present in places other than the Middle East historically as well. The focus markets for us, I mean, there are many focus markets across the world. And in each of them, each of them is different. We have to look at what the competitive landscape is, what the local Power Gen or Industrial market is like who are the players in that space? Do we want to go in alone? Do we want to go in with a JV? Do we want to have an appointed genset OEM?

What you're seeing in the Middle East is the result of us appointing a genset OEM for specifically Power Gen sales. And you've seen the traction from that work in the last year or so. We had a pretty significant industrial presence there, but we didn't have, we weren't doing so well on the Power Gen side. So I think that's what you're seeing in terms of growth. But whether it's Africa, whether it's the U.S., whether it's Southeast Asia, we'll have different ways of going to the market depending on what makes sense.

Moderator: The next question is from the line of Aditya Mongia from Kotak Securities.

Aditya Mongia: The first question that I had was more to get a sense of some more insights on the HHP segment. As we understand in this segment, there's a requirement that customers have of, consultants kind of approving the products that the company has. Could you give us a sense of how has that journey been for you? And are you being able to make inroads on that.

Gauri Kirloskar: I'll just have Kiran, who's our CHRO, talk a little bit about what we're doing because there is capability building we had to do, because the way the product is sold is quite different. So Kiran, please give an update.

Kiran Bhagnure-Khapre: Sure. Thank you, Gauri. So I think you already heard Gauri and Rahul talking about the progress what we are making on the HHP side. So while the focus has been on building out the great products, we also, in parallel, started working on improving our capabilities. And for that, we've worked on a development program for our frontline sales teams, which purely focuses on how the products are being sold.

These products are way too more technical in nature compared to what our earlier product ranges were. And so we have worked through a detailed development program, including the technology of the products, the commercial aspects of the products as well as focusing on the negotiation skills and the soft skills of how to sell these products. So some of these programs

have been going through the organization at this point in time, helping to build that capability inside the organization.

Gauri Kirloskar: Yes. And we've done this not only for our sales teams, but also for our genset OEMs who are partners as well for their sales team as well. So that's part of it because as you said and as you mentioned, the consultants have to be on board. They have to be aware of what our product portfolio is, especially because we have different solutions like an Optiprime, which is not a single engine solution. That has to be explained. It has to be witnessed. So it's been a lot of groundwork that we've had to do, but we are seeing traction now come out of that. [inaudible 0:42:27].

Moderator: The line for the management has been disconnected. Ladies and Gentlemen, the line for the management has been reconnected, thank you and over to you, ma'am.

Gauri Kirloskar: Yes. Sorry, I think the person we were speaking to had a second question, we couldn't hear it.

Aditya Mongia: The second question that I had was more to better understand market share shifts that may be happening in the LHP front as we see through the relative changes happening, it seems, still seems that on a 2-year basis since CPCB IV happened, the market leader has gained share versus Kirloskar. Some pullbacks are happening right now. But it still seems that a lot has been lost the last 2 years on the LHP side. Do you think that there are scopes of further clawing back market share? Or how do you think about that aspect?

Gauri Kirloskar: So what makes you think that?

Aditya Mongia: So one is just kind of comparing the relevant segments and the relative growth that's happened, okay, over the last 2 years. And it seems to suggest that while on a Y-o-Y basis, some bit of faster growth is happening for Kirloskar, on a 2-year basis on aggregate growth, which makes me believe that there is more to kind of recoup the market share for Kirloskar, and that's why the question?

Gauri Kirloskar: Yes. I mean I think it's hard for me to comment because I don't know the source of your information. So I will not be able to answer that question.

Aditya Mongia: Got it. I'll take that separately. The third part was?

Gauri Kirloskar: Yes because when you give me specific growth rates and I look at those numbers, it's very hard for me to answer that.

Aditya Mongia: Happy to take it in a separate call the numbers. But let me just move on. On the Distribution side of things, could you give us a rough split of what are the key elements over here? I understand that spares would be a large proportion and then there will be other parts such as solutions that you may be doing. Some sense of how the breakup is for you?

Rahul Sahai: I think, so by and large, you're right. There's a lot of, it's mostly spare parts and service today. We also do overhauls and we, under our brand called New Life. So, but that component is very less. So bulk of it would be spare parts along with the service contracts.

- Moderator:** The next question is from the line of Prolin Nandu from Edelweiss.
- Prolin Nandu:** This is Prolin from Edelweiss. My question is on margin while you answered the question. Just this quarter-on-quarter drop in margins on the EBITDA level, is it mostly all of it is explained by the mix change? Is that a fair understanding?
- Sachin Kejriwal:** So I've already answered that. So it's a combination of mix, product mix change and the operating leverage loss.
- Prolin Nandu:** And by product mix, you mean the distribution growing lower than the product growth, right? Is that understanding?
- Sachin Kejriwal:** It's a combination of 2, 3 factors, but we are not giving those details right now.
- Prolin Nandu:** Okay. And on your, the Marine and Naval execution on that part, right, in a way, will the margins on the orders, Marine orders be at par with company average? Or would it be lower? Or can you just understand, help us understand what could be the margin trajectory for the orders?
- Rahul Sahai:** We don't give those margin details for each customer segment. So sorry, we'll not be able to share any details further on that.
- Moderator:** The next question is from the line of Jason from IDBI Capital.
- Jason:** I just wanted to ask, of course, Q3 tends to be, even last year, it was a little drop off from Q2. And then again, this year also it's kind of the same trend. I just wanted to know what kind of seasonality, is it because of less cooling demand because it tends to be cooler during, just if you could highlight some reasons for the seasonality for the sequential drop in volumes?
- Rahul Sahai:** Yes. I think that's generally how capex flows happen here, mostly on the domestic side. So it's a phenomenon that's seen across the industry. So there's nothing very specific to KOEL.
- Jason:** Okay. Okay. Sure. And just wanted to also know, I mean, of course, I understand that DG sets are going through a good phase of growth. Now I just wanted to know any particular infrastructure verticals you want to highlight which are driving this growth?
- Gauri Kirloskar:** No, it's pretty broad-based.
- Jason:** Yes. Sure. And ma'am, also, you spoke in detail about how you are leveling up your sales capabilities in terms of programs and stuff all that, that's good. Just wanted to know also just a pertinent question relating to that. Now I also understand for HHP, you require a better quality, better qualified service engineers servicing that segment because service becomes a critical aspect for that solution. So what are the steps we are taking to basically, to up our game there in that segment to basically improve the quality of service engineers, hire better hiring and those practices. Just wanted to know some color from your side on that aspect?
- Gauri Kirloskar:** Sure, Kiran is here to answer.

Kiran Bhagnure-Khapre: Yes. Again, the capability building initiatives are not only focused towards one segment. We are driving that as a common upskilling theme across the organization. So a lot of training programs to make sure that our workforce is able to address the customers' issues right on time. So that's what I would say.

Gauri Kirloskar: And what I would add is this training program, especially across service is a continuous process because you obviously have also people coming and leaving and you have to address that. You have to have trained service engineers on a continuous basis. And the product portfolio also keeps changing, not only because of product expansion, but driven by emission norms as well. So the training on the service engineer side is a continuous process.

Jason: Sure. And lastly, ma'am, just wanted to ask about this notification on the BSE where you have invested close to INR8 crores in the Middle East entity, which in turn is going for basically acquisition of the South African entity again. Just if you could just give some color on what exactly, I understand you've given a lot of details there, but just your take on that.

Gauri Kirloskar: I mean it's the same thing. So when we look at our international market, we do an assessment on a market-by-market basis of how we want to be structured and how we want to operate there. So this is just in line with that strategy and in line with how we want to operate in South Africa. And it just follows that strategic rationale.

Jason: Right, right. So you're basically saying that you don't want to basically keep it to an external party, but you want to basically do the industrial piece in-house. Is that correct for the South African market?

Gauri Kirloskar: No, that's not necessarily correct. It's just that we have now our own entity and office where like Rahul mentioned about capability, capacity and coverage, which is what we need to build in all international markets. We now have our own entity and office there, so we can at least start building that people capability in-house.

In the future, and the reason I can't answer your question specifically is in the future, if we see opportunities to tie up with people or any similar such thing, then we would do that. So I can't say that we will not do it today because it remains to be seen as time goes on and how we do in that market and what we learn in that market.

Moderator: The next question is from the line of Suraj from Catamaran.

Suraj Malu: So to reach the stated goal, which is \$2 billion run rate, which is approximately a 3x growth from here. So how should one understand about the capex required to grow from the current levels? Like will you need to scale the gross block from current INR1,900 crores, INR2,000 crores to like INR5,000 crores, INR6,000 crores?

Rahul Sahai: Yes. So there is, we have a capex plan. As we have mentioned earlier, there is INR700 crores of capex that we are deploying into ramping up our operations. A lot of that work is currently ongoing. There is a capital allocation philosophy that is underway. So from time to time, as we take actions, you will see the, you'll see it reported post Board meetings, I mean, in these calls.

So at this point in time, the rest of the information is internal to KOEL and we won't be able to give it out.

Moderator: The next question is from the line of Rahul Kumar Mishra from Antique Stock Broking.

Rahul Kumar Mishra: Congratulations to the team for delivering a healthy set of numbers during the quarter. Most of my questions have been answered. I have just 2 questions. So first, if you could help me give some color on the water management system. So what is the demand outlook going ahead for this business?

Rahul Sahai: So the water management systems and the LGM business has now been consolidated into a single entity called Fluid Dynamics. We call it KOEL Fluid Dynamics. It is going to be a subsidiary of Kirloskar Oil Engines focused on pumping solutions. Pumping solutions will vary across different kind of end use and applications. Water is one of them. As we proceed further, there are big opportunities that we see on the domestic pumps and Agri pumps side. So we continue to remain focused and look at the appropriate products that need to be launched.

Rahul Kumar Mishra: And my second question is on the export side. So we have seen that exports have grown healthily about 20% on, during this quarter as well as on a YTD basis. So I wanted to just get a sense of what has driven this healthy growth during the quarter?

And lastly, on the U.S. market, last quarter, we discussed that it's going to be one of the largest market with some good opportunities. And with the recent announcement of relaxation and tariff by the U.S. government, how do we look at this market? And given that almost 60% of sales we derive from MENA region, do we see this proportion shifting going ahead for the next couple of years once we build our capability for U.S. market and start securing orders? So just a color on this.

Rahul Sahai: Yes, sure. See, each region that we look at, there is a very careful evaluation around the 3 Cs that I spoke about earlier, that's capability, capacity and coverage. And then we take a look at how exactly do we want to go to market, whether it is through independents or joint ventures or an acquisition. So that's, and it's a lot of effort and work that goes into it. Some of the traction that you are seeing on the international side is an outcome of the work that we've been doing.

So there is work that we are doing, we've been doing on the Middle East and Africa side. There are other work of other regions also. Now coming specifically to U.S., we have been investing in the U.S. market for a while. We have a subsidiary called Kirloskar Americas, and there is work that's going on, but it is not at a mature stage that we can discuss about it right now.

Moderator: As there are no further questions from the participants, I now hand the conference over to management for closing comments.

Gauri Kirloskar: Thank you very much for your interest on today's call and for the questions. See you next time.

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