



“Kirloskar Oil Engines Limited
Q4 FY26 Earnings Conference Call”
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MODERATOR: **MR. AMIT SHAH – ANTIQUE STOCK BROKING LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Kirloskar Oil Engines Limited 4Q FY26 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Amit Shah: Thank you, Sagar. Good evening, everyone. On behalf of Antique Stock Broking Limited, I welcome you all to 4Q FY26 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 will hand over the call to Ms. Gauri Kirloskar for her opening remarks, post which we can open the floor for Q&A. Over to, Ma'am.

Gauri Kirloskar: Yes. Thanks very much. Good evening, ladies and gentlemen. Thank you for joining us today. On the call today, we have Rahul Sahai, CEO of KOEL; Sachin, the CFO at KOEL; Kiran CHRO and Farah Irani, Company Secretary. Joining us from Arka we have Ridhi Gangar, our CFO. I would like to start with year-end investor call with a thank you to all our investors, especially those who have placed their trust and confidence in us over the last 4 years or more.

I remember discussing growth, specifically sustainable growth when we began this journey. As business cycles fluctuate between favourable and challenging, there will always be spurts for growth followed by periods of lull. What matters most is how we build an organization capable of leveraging favourable circumstances while remaining resilient during a downturn.

Certain approach is not a quarterly raise, it is a multiyear marathon. It requires managing various cycles and building for the future, all while overseeing day-to-day operations. I have always believed that growth must be sustainable. It cannot come at a cost of profitability or for the sake of short-term benefits.

At a consolidated level, we achieved 22% growth in revenue. We are now amongst the top 10 manufacturers in the world by volume in the industrial and Powergen space. We sold over 1 million pumps last year and our international business crossed INR1,000 crores in gross sales. Our domestic business grew 21% year-on-year, while international business grew 37% in group sales.

While various factors influenced our monthly and quarterly movements, our focus remains steadfast on long-term sustained growth. At a standalone level, the company achieved its highest-ever quarterly sales in Q4, reaching INR1,522 crores, a 24% year-on-year growth. This resulted in full year net sales of INR5,604 crores, representing a 25% year-on-year increase.

In Q4, the domestic business grew 26% while the international business grew 10% compared to the same quarter last year. Our Powergen segment grew 32% over the previous year. On a quarterly basis, Powergen grew 30% year-on-year. To put this in context, Q4 is traditionally a strong quarter for us, so delivering this level of growth is a significant achievement.

Our market share has improved significantly across all nodes. In our high horsepower segment, where our market share was negligible a couple of years ago, we are now approaching double digits. While the overall annual diesel generator market grew 18% to approximately 179,000 units, including telecom, KOEL grew by 41%, selling upwards of 50,000 units in FY26.

Our Industrial segment grew 22% annually generating revenues of INR1,444 crores. Construction, mining and railways have been our primary growth driver. The growth in our construction segment tells an interesting story. As you all know, in January of 2025 there was a mandatory emission standard shift from CEV BS-IV to CEV BS-V.

So emission changes represent both an opportunity to acquire customers and a risk of losing them. In this segment, customer acquisition is a long-drawn process, involving technical alignment, product fit assessments and often engineering tweaks to ensure our products integrate seamlessly with the customers' equipment.

This involves site approvals and proto testing, a joint effort that typically takes 18 months or more. Despite these complexities, we grew 24% in this segment in Q4 compared to the same quarter last year. Our construction segment specifically grew 44% year-over-year, validating the strength of our products under the new emission standard and the capability of our engineering team.

We have incorporated a new subsidiary called Kirloskar Advanced Systems Private Limited. We believe there's significant potential in advanced technology, particularly to serve key accounts in sectors like defense. Beyond our traditional engine business, we see a systems integration opportunity where we can leverage our engineering capability. This requires focussed effort which is the rationale behind this new entity.

On the aftermarket side, we grew 15% annually and 20% quarterly. As mentioned in previous calls, our journey over the last 4 years has been to transition from a parts provider to a complete ecosystem manager. We are improving our share of annual maintenance contract or AMC customers and leveraging our service channels to offer allied products and hold goods.

This shift in perspective is yielding clear results. Kirloskar fluid dynamics grew 10% domestically and 13% internationally this quarter. On an annual basis, the business grew 6% domestically and 36% internationally. As this is the first full quarter for the consolidated entity, we saw reasonable growth with exports outperforming.

However, I believe there's still significant headroom for growth. Regarding our international business, I have always maintained that growth must be built sustainably. To become a strong brand globally, our product, channel and service processes must be fit for the market. There is a fundamental difference between exports and being international. Exports involves manufacturing locally and shipping to a country to sell through an agent.

Being international means building a genuine business in that geography, hiring locally, setting up comprehensive offices and evaluating local manufacturing or assembly where it viable. Our gross international business grew 33% in Q4 over the previous year's quarter and 37% over the last fiscal year. We remain committed to our strategy of focusing on specific regions to build business with patients and sustained effort.

At Arka our 5-year strategy centers on a deliberate pivot towards realizing our book. To ensure sustainable growth, we prioritize building the right foundational structure ranging from onboarding the right talent and selecting markets to building seamless digital journeys and prudent risk guardrails.

We scale from 34 to 137 branches in fiscal year '26, our strategy focuses on local market depth, operating only in regions where we have the established infrastructure to provide direct high touch service to our customers. Our AUM grew 10% to INR7,947 crores, with net interest income rising 11% to INR266 crores.

Even with significant investments in the secured retail business, FY26 profit after tax remains stable at INR69 crores, similar to FY25 profit after tax before extraordinary items. While we are in full execution mode, asset quality remains robust, along with prudent leverage and capital ratios.

In summary, we are progressing well against our goal to be a USD2 billion company by Fiscal Year '30 and our numbers indicate that progress. We are very excited about our future. We believe that there is much more that we can do and the opportunity is real. Our last year's performance is a reflection of the inherent strengths that we have at KOEL, our leadership, our engineering, our people and the strength of our partners meaning our suppliers, our channel partners and most importantly, our customers.

I will stop here and request Sachin to give an update on Q4 and the full-year numbers. Thank you.

Sachin Kejriwal:

Hi, good evening, everyone. Thanks, Gauri, for the update. I will give a quick overview of the financial performance for standalone and consolidated business. The results and the presentation for today's call has already been uploaded on exchange and our website. Q4 FY '26 was a period of remarkable growth, setting a new benchmark for quarterly sales. The strong performance was broad-based with significant double-digit growth in both domestic and international markets.

The fourth quarter of fiscal year '26 was record-setting period for Kirloskar Oil Engines, achieving the highest-ever quarterly sales of INR1,522 crores for the standalone operations, registering 24% growth year-on-year. With this strong performance, we closed the full year with standalone net sales of INR5,604 crores, that is 25% growth year-on-year.

Coming to the financial performance overview, I will start with standalone performance first. For the quarter, net sales at INR1,522 crores for Q4 FY '26 versus INR1,225 crores for Q4 FY '25, 24% increase year-on-year. EBITDA at INR193 crores for Q4 FY '26 versus INR152 crores for Q4 FY '25, that is 27% increase year-on-year. EBITDA margin at 12.6% for Q4 FY '26 versus 12.3% for Q4 FY '25. There has been improvement by 30 basis points. Net profit from continuing operation at INR118 crores for Q4 FY '26 versus INR92 crores for Q4 FY '25, 28% increase year-on-year.

Now moving to the full-year performance. Net sales at INR5,604 crores for FY '26 versus INR4,481 crores for FY '25, that is 25% increase year-on-year. EBITDA at INR737 crores for FY '26 versus INR552 crores for FY '25, 33% increase year-on-year. EBITDA margin at 13.1% for FY '26 versus 12.2% for FY '25. So there's a growth of 90 basis points in EBITDA margin.

Net profit from continuing operation at INR464 crores for FY '26 versus INR343 crores for FY '25, 35% increase year-on-year. Net cash position net of debt and including treasury investment stands at INR552 crores. Please note numbers reported here are for continuing operations only and excluding exceptional items.

Moving to working capital, our working capital position continues to remain healthy, with payables at approximately 60 days and receivables at around 41 days. Inventory levels stood at approximately 48 days, which improved from 66 days last quarter. Supported by disciplined working capital management led by improved inventory and receivables efficiency, the overall cash conversion cycle has continued to be maintained within a disciplined range, supporting overall liquidity and operating flexibility.

In the interest of time, I will break down this performance for the quarterly numbers. You can refer to our earnings presentations for full-year performance numbers. So coming to the further breakdown of the standalone sales for the quarter, KOEL's standalone sales post the restructuring were at INR1,522 crores, that is 24% growth year-on-year. This strong momentum was backed by double-digit growth across all business units.

So within B2B, Power Gen was at INR708 crores, that is 30% increase year-on-year. Industrial was at INR371 crores, 24% increase year-on-year. Distribution and aftermarket was at INR281 crores, which is 20% increase year-on-year. And international business of B2B was at INR162 crores, that is 10% increase year-on-year.

Now looking at consolidated performance for the quarter. The revenue from operation at INR2,116 crores for Q4 FY '26 versus INR1,749 crores for Q4 FY '25, that is 21% increase year-on-year. Net profit from continuing operations at INR162 crores for Q4 FY '26 versus INR111 crores for Q4 FY '25, that is 47% increase year-on-year.

Let us have a look at consolidated segment performance for the quarter now. B2B segment revenue for the quarter was at INR1,557 crores, which is 25% growth year-on-year. The segment PBIT was at INR152 crores, reflecting 35% increase year-on-year. B2C segment revenue for the quarter was at INR339 crores, which is 11% growth year-on-year. The segment PBIT was at approx INR42 crores, that is 16% increase year-on-year.

Financial service segment revenue for the quarter is at INR221 crores, reflecting 8% year-on-year growth. The segment PBT was at INR28 crores, that is 157% increase year-on-year. Please note numbers discussed here represent continuing operations only and before exceptional items.

To conclude, I would like to sincerely congratulate the entire KOEL team for their contribution to the strong performance. The progress we have achieved this year is a reflection of the collective commitment, resilience, and execution capability across the organization. As we close this financial year, we are now preparing ourselves for the next set of milestones in our 2B2B journey.

Our approach will continue to be steady and disciplined, staying focused on our long-term goals, taking one step at a time, and remaining agile as we navigate the evolving business environment. Now I would like to open the floor for the Q&A. Thank you.

Moderator: Your first question comes from the line of Jeetu Punjabi with EM Investco Capital Advisors.

Jeetu Punjabi: Hi Gauri, Rahul, and team. I think tremendous performance and very satisfying to see the way you guys have scaled up and managed to get to this place. So congratulations on that. My first question really is that, you know, the export side numbers seem very strong. Question is, can you give some level of attribution to help us understand where's that growth coming from and two, your thoughts on sustainability of that? I've got a second question, I'll answer -- I'll ask after we talk about the first one.

Rahul Sahai: Hi Jeetu. So thank you for the inputs and really appreciate that. On the international side, so our Fluid Dynamics business has done extremely well last year. So seen tremendous growth. As we've been explaining over the quarters, our game plan is deeply structural for each region. So we take a deep look on, you know, where should we play, how do we succeed in those markets, what is the regulatory environment. So there is a lot of ponderance before we make decisions to commit to a market.

And once we do, then the entrenchment is fairly sustainable. So the way I would answer the question is, do we think this is sustainable? We would believe that this is sustainable. In fact, there is a lot more work that is still underway. And if I look at the split, Power Gen continues to be a very big opportunity on the international side. We continue to be focused on that. This time around, we've seen significant success on the pump side as well as on the Power Gen side in the INR1,000 plus crores in gross sales.

Jeetu Punjabi: I really appreciate that. The second question is really, can you talk a little bit about the market share gains in the high horsepower segment? I don't specifically ask for numbers, but I'm just more color on what's happening there and especially Optiprime, how is that shaping up and what does the order book look like?

And one more linked question broadly is with the war and potential fuel price hikes and all the other stuff, can you just again tell us what you think are the -- any of the challenges that you expect in the environment for our business over the next 6-9 months?

Rahul Sahai: Right. So Jitu, just on Optiprime and our HHP focus, if I look at the way we've progressed over the last one year, we are already making strides, I would say significant strides, whether it is Optiprime or HHP. So we have sold units up to 3,000 kVA now. So all of that is already underway and we have actually sold a few hundred Optiprimes last year. So that has been extremely encouraging for us as the management team as well as the teams within the organization.

And we do believe that the moment we enter a particular node or market and definitely domestic first, we have an opportunity to succeed there. And the HHP segment in Power Gen has been not very different. So we do believe that we will continue to grow stronger there. As far as the current geopolitical situation is concerned, we may see short to medium-term structural changes play out. I think we are keenly watching out for the macro environment.

But what I can assure you is whatever happens won't be specific or unique to us. I think if there is a larger macro play that happens or if there is, you know, there's something that happens, then we may face some headwinds, but we may also see tailwinds in the form of rebuilding of infrastructure in those respective regions.

The good news for us is that look, we committed to the Middle East market a few years ago and we are present. So each time, I mean, if there -- once the rebuilding process starts and as and when it starts, we are present there to address that growth in the market.

Jeetu Punjabi: Thank you very much and good wishes as always. Thank you.

Rahul Sahai: Thank you, Jitu.

Moderator: Thank you. The next question comes from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Yes, hi team. Thanks for the opportunity and congratulations on a strong set of numbers. My first question is on the R&D and the overall product development side. Now, you know, glad to hear your earlier comment on Optiprime picking up very well. But just on that bit, are there any more products that we are working on over the next, let's say, one to three years, which can drive the growth further up or maybe even variants of the existing ones which can see a ramp up over the coming years?

Rahul Sahai: So I may not be able to give out information about the product launches and the engineering development, but what I can say is that we are deeply focused on key customer segments and their requirements and we are fully geared and equipped to develop the products that the market requires.

Ankur Periwal: Okay. Let me rephrase my question. So you did mention you're selling units up to 3,000 kVA. So the incremental focus is on going beyond 3,000 kVA as well or within 3,000 kVA, our portfolio is reasonably placed and we believe there is no further new product investment required there?

- Rahul Sahai:** So we have the capability to address nodes even beyond 3,000. What I did mention was where we have actively sold units. We have capability. As you're aware, we are executing order of Nuclear Power Corporation, 10 units, each unit is 6.3 megawatt genset. So we do have the capability to address larger units. I was just talking about the routine products.
- Ankur Periwal:** Okay, sure. That's helpful. Second bit on, you know, very strong growth on the industrial side for us. How is your -- what is your growth outlook across industrial as well as distribution revenue going ahead? While till now the growth, you know, as in the initial comments we highlighted was less by -- was led by construction, but are these the key segments which will drive the growth further ahead as well or there could be more sub-segments that we will look to ramp up?
- Rahul Sahai:** So our guidance overall, we remain committed to the 2 billion guidance and industrial and aftermarket have an important role to play as we move and progress towards the 2 billion milestone. As you're aware on the industrial side, we have multiple segments. There is a game plan in place for each of those segments. Depending on the year and the cycle we're in, some of those segments will do better than others. But I wouldn't be able to call out anything more than that at this point.
- Ankur Periwal:** Okay, fair enough. And just last question, from -- the company's investments into the sub-segments in terms of having the people, the teams, the network in place. Are most of the investments there we have already invested there and now we just need to see the ramp up and the execution part, or there could be some more investments which are required?
- Rahul Sahai:** As you're aware, the situation does change quite a bit. So we may make decisions to hire more people depending on the circumstance. So it's hard to really comment on that. But yes, there is a significant amount of infrastructure as well as network already established that we are fully leveraging at this point.
- Ankur Periwal:** Okay. Thank you for all the answers and all the best.
- Moderator:** Thank you. The next question comes from the line of Jason Soans with IDBI Capital. Please go ahead.
- Jason Soans:** Yes, thank you so much for taking my questions. First, just had a clarification, I just joined the call a bit late. Gauri ma'am did mention that the whole -- how much the industry grew and the volumes. Could you just repeat that?
- Gauri Kirloskar:** Yes, sure. You want me to repeat that bit of the commentary? I said that while the overall annual diesel generator market grew 18% to approximately 1,79,000 units including telecom, we grew by 41%, selling upwards of 50,000 units in this fiscal year.
- Jason Soans:** Sure. Thank you so much, ma'am, for that. Yes, that's very helpful. Now, I just also -- my next question just pertains to, I mean, we saw good growth on the Power Gen side, 32%, and 22% on the industrial side. Just wanted to know if you could just help us with the volume growth as well for both these segments for the entire year?

- Rahul Sahai:** I think Gauri's kind of answered the volume part of it. So what exactly is the question?
- Jason Soans:** Yes, I just wanted to know, I mean, so Power Gen segment grew by 32% for '26 and industrial grew by 22%, and there's a CPCB element and all those things. So just wanted to have a breakup with the volume and the price growth, if possible?
- Rahul Sahai:** Yes, we won't be giving that here.
- Jason Soans:** Okay, sure. Okay. And actually last time around in the last annual call, you did mention the HHP sales numbers. Would it be possible to have that number for '26?
- Rahul Sahai:** So yes, that number we don't usually give out. So I'm sorry, we won't be able to share that. I think the qualitative on HHP we did share right in the beginning of the call.
- Jason Soans:** Yes. Okay. And I also saw the announcement with regard to the capacity augmentation at the Kagal plant. Now, you've mentioned some capex as well for that. Now, considering that, could I, you know, basically what capex do we envisage for '27 and '28 going ahead?
- Sachin Kejriwal:** So you must have read this stock exchange disclosure. So we are investing close to INR1,400 crores on that. So that will be our capital allocation for this next two years.
- Jason Soans:** For both the years. Yes, okay. And just lastly, just wanted to understand this time around, there have been, you know, the Middle East crisis and things like that, the gas crisis as well. Any short-term disruptions during the quarter? Did the company face any short-term disruptions during the quarter?
- Rahul Sahai:** No, nothing specific.
- Jason Soans:** Okay. Sure. I'll join back the queue for further questions. Thank you so much.
- Moderator:** Thank you. The next question comes from the line of Mihir Manohar with TRUST Mutual Fund. Please go ahead.
- Mihir Manohar:** Yes, hi. Thanks for giving the opportunity, and congratulations on great set of numbers, very strong numbers. I wanted to understand on the capacity addition side. I mean, the 50,000 engines that we're expanding for Kagal. So, I mean, should one consider that coming operational second half FY28, because in 2024, you had mentioned it to come in three years. So, when should we expect that 50,000 engines to come on stream?
- And second question was on the 20,000 engines capacity expansion that you are announcing. Now, here we are mentioning about INR1,400 crores of capex versus for 50,000 machines, it was INR700 crores capex. So, are these on the HHP side? I mean, why a higher number for machine, capex for machine? So just to understand that.
- Gauri Kirloskar:** Yes, so that's a good question. So, we announced the INR700 crores like you mentioned and that's coming online by April of next year and 50,000 engines. But that was about enhancing our lines, and adding new lines in the existing plant. So that's why you saw that, kind of, investment. Now for this INR1,400 crores investment that we're taking on over the next two years for 20,000,

it's because it also includes a new building, of course, at the same site. So, there's no land acquisition involved, it's still at our Kagal plant, but it's a new building and of course completely new lines and equipment.

Mihir Manohar: Okay. So that's because of the building, which is involved.

Gauri Kirloskar: Sorry?

Mihir Manohar: Sorry?

Gauri Kirloskar: Does that answer your question?

Mihir Manohar: Am I audible?

Gauri Kirloskar: Yes.

Mihir Manohar: Yes, okay. So that's because of the building involved. It's not the case it's for higher HHP machine, or a typical higher category of machine, that's not the case?

Gauri Kirloskar: It is also for higher machines, but it involves all of these things. So, as you can see from the results, we are seeing traction in international markets, we are seeing traction in the high horsepower segment, as well as Optiprime. So, it is for those kinds of engines.

Mihir Manohar: Understood, sure. Second question would just be on the Vizag side. I mean, a lot of data center capacity coming at Vizag location. If you can provide some clarity as to are we getting inquiries specifically pertaining to this location, and how strong are these inquiries? Some color around that will be helpful.

Rahul Sahai: So, look, we are engaged with different kind of customers, and there are inquiries from all over. I wouldn't say Vizag is any different from that at this point in time. However, it's hard to comment on that.

Mihir Manohar: Understood, sure. That's it from my side. Thank you very much.

Moderator: Thank you. The next question comes from the line of Teena Virmani from Motilal Oswal Financial Services. Please go ahead.

Teena Virmani: Yes, hi. Thanks for taking my question, and congrats Gauri, Rahul, and the team for a great set of numbers once again in the quarter. My first question is related to the margins. So, we have seen very good growth in revenue across divisions. So, wanted to understand when can we start witnessing the operating leverage gains? Because you had mentioned in the past that you were investing in the sales channel network, educating your distribution network and everyone on the new and the high HHP products.

So, are these investments done, which is leading to let's say the higher other expenses, which we have seen in this year? So, are these investments done, or they are more to be done in the coming quarters, and when can we see actually the reduction in these other expenses, which can drive your operating leverage gains? So, that's my first question.

- Rahul Sahai:** Hi, Teena. So, look, see each of the nodes, the kVA nodes have their own associated margin profile. So, overall, what we share is a composite number. Now, what you would see is that there is absolutely no margin deterioration, and in certain nodes we've seen operating leverage also kick in.
- The way I can answer that question right now is a lot of the investments are made, but as you're aware, we've kicked off this new capacity enhancement investment. So, there is a lot of traction that we also are receiving on the international side for, which we are gearing up for and we probably will see larger operating leverages kick in soon.
- Teena Virmani:** Okay. So that can start panning out maybe from FY27 onwards.
- Rahul Sahai:** Yes, I mean, our full intention is to maximize on operating leverage, yes.
- Teena Virmani:** Understood. And my second question is related to your Power Gen business. You have mentioned that you are growing very well in the HHP side with growth in your Optiprime and the other HHP ranges. How do you see the growth in the non-HHP portfolio for FY27 and going ahead? How do we see this segment to grow going forward given that we already have a very high base for the industry also as well as for KOEL also?
- Rahul Sahai:** I mean, it's going to be hard for me to give an outlook, but what I can certainly say is that, look, we will continue to strive our best and focus on our core bread and butter business, which is LHP. So that certainly will remain a big focus area as we look to unlock new avenues, especially on the projects and HHP side. So, we're very committed to the LHP business.
- Teena Virmani:** Understood. So, this will grow in line, or maybe a little better than the industry growth for this year also, FY27.
- Rahul Sahai:** We will certainly try for that.
- Teena Virmani:** Okay, okay. Just lastly on the cost side, we have seen higher RM prices across the board for the entire industry. Do you see that the market is strong enough for absorbing any, kind of, price hike if industry participants were to take any kind of price hike for RM pressures?
- Rahul Sahai:** I think each company has its own strategy. So, it's hard for me to comment, but I think some of the material cost inflation is such that it's going to be hard for players to absorb all of it themselves. So, some of it will certainly get passed on to the market.
- Teena Virmani:** Understood. I'll come back with follow-on questions. Thank you so much.
- Moderator:** Thank you. The next question comes from the line of Suraj Malu with Catamaran. Please go ahead.
- Suraj Malu:** Hi, thank you very much for this opportunity. Ma'am, of the INR1,400 crores capex that we have announced, is it fully new, or is there any replacement amount involved in this?
- Sachin Kejriwal:** Yes, Suraj, this is fully new capex, nothing replacement.

- Suraj Malu:** Got it. And the INR700 crores capex that is underway, so the current gross block I assume would be around INR2,000 crores. So, is this understanding correct that this INR2,000 crores gross block would become plus INR700 crores and plus INR1,400 crores? So roughly, like, INR4,000 crores after two, three years?
- Sachin Kejriwal:** Yes, once we complete the capex cycle.
- Suraj Malu:** Got it. So that INR700 crores, nothing is included in the current gross block, right?
- Sachin Kejriwal:** No, no, nothing.
- Suraj Malu:** Got it. And if we look at the amount, is the new capacity of this current 20,000 engines that is announced, is this primarily HHP, because the amount is huge if we look at the current capacity of 1,35,000 and the current gross block, the proportions don't add up, like, the increase in engine capacity is just 15%.
- Sachin Kejriwal:** So, Gauri has already answered that. So, it's a combination of both. So, we are investing in the building in existing Kagal facility, plus and larger capex will go towards the building HHP capacity enhancement.
- Moderator:** Sorry, sir, the line for the current participant has dropped from the queue. We'll move on to our next question. The next question comes from the line of Amit Anwani from PL Capital. Please go ahead.
- Amit Anwani:** Hi, thanks for taking my question. I just saw the press release on the Netherlands subsidiary. So, if you could elaborate more, I think you have highlighted about some heat engines and ICE engines as a product plus some energy transition products. Just wanted to understand what we're trying to achieve with this subsidiary in Netherlands?
- Gauri Kirloskar:** Yes, sure. So, given international is a very big component of our five-year goal, it's just important for us to structure ourselves efficiently as we're growing to create value for our stakeholders. So, it's in line with that.
- Amit Anwani:** Right. So, a second question on the data center. Just wanted to understand in terms of capability and \$2 billion goal, how much we are factoring in, in terms of the data center growth addressable market in terms of higher nodes in the data center. Some color definitely would help, and how has been at least the growth in the past, the targets for growth from the data center piece, that will help?
- Rahul Sahai:** Sure. So, look, I cannot give out how much we are factoring in the \$2 billion from a data center segment contribution standpoint, but the response that we've received is quite encouraging. We remain committed to the segment. We do believe that we have a unique proposition for the data center segment, and we're hoping that we get more traction as we move along. But we've seen successes even in the last year.
- Amit Anwani:** Right. Lastly, you did highlight about the capex and the international leg will also is something, which you're considering while doing this capex. So, could elaborate more, which markets and

nodes you're actually trying to address with this capex? Anything, which is there to understand in terms of any particular markets or nodes you're looking for?

Rahul Sahai: It's focused on HHP markets in Power Gen mostly. So, that will be the key theme of the capital deployment.

Amit Anwani: Which any particular geographies you're looking at initially?

Rahul Sahai: So, at this point we can't give that out, but of course, the capacity is being set up for whole of KOEL to use, yes, across the board.

Gauri Kirloskar: Yes, it's across the board. So, it's not that we're only setting up the capacity for a specific geography. It would be for any demand that we see across our markets.

Amit Anwani: Right. Thank you. Thank you so much for answering. Thank you.

Gauri Kirloskar: Thank you.

Moderator: Thank you. We will take our next question comes from the line of Mr. Suraj Malu from Catamaran. Please go ahead.

Suraj Malu: Yes, thank you very much. Sorry, I got dropped off. So, my question was on the proportion, the capex that we have announced, roughly double of the current gross block including the INR700 crores and INR1,400 crores. So, what is the asset turn that we can expect on this gross block?

Gauri Kirloskar: So Suraj, Sachin will answer the question on asset turns, but I think you dropped off, and what he was saying, and what we had mentioned before as well was that the difference in INR700 crores and INR1,400 crores, even though one is 50,000 engines and one is 20,000, is because this one includes a new building as well at our existing Kagal land, and it's for the high horsepower engine. So, I just wanted to make sure that you heard that, and Sachin will answer the second part of your question.

Sachin Kejriwal: So Suraj, asset turn will in the range of 4% to 5% depending upon the nodes.

Suraj Malu: Understood. On the total base, right, including the land and everything.

Sachin Kejriwal: Yes.

Suraj Malu: Okay. Yes. Thank you very much.

Moderator: Thank you. The next question comes from the line of Palak from MIV. Please go ahead.

Palak: Hi, am I audible?

Moderator: Yes, ma'am, you're audible.

Gauri Kirloskar: Yes. You're audible.

Palak: Yes, okay. So, my first question is on the short-term margin. So, with all the commodity inflation situation, are we comfortable that we will be able to sustain this level of gross margin?

And second question is that, I think approximately 40% to 50% of our export revenue is from the Middle East market. So, what was the impact on this quarter and the next quarter what we are expecting?

And the last question is that can you give us the proportion or the contribution of HHP to our Power Gen segment?

Gauri Kirloskar: So, on the last question has been asked before on the call as well, but I'm sorry, we're not going to share that data, Palak, on the HHP bit. On your first question on raw material inflation, I think we're in a pretty sort of turbulent period or perhaps going to be entering a pretty turbulent period. And I think every effort will be made for us to focus on long-term growth and maintaining our margins and keeping them sustainable.

So -- but as we know it's a turbulent period, and hopefully, that only remains for the short term. I think in terms of the demand drivers in our industries, we do feel that they are remaining strong. So, we feel we're in a good position. And it's not anything that we're going to go through in an isolated way. On your second question, which was on Middle East...

Palak: Yes, Middle East.

Gauri Kirloskar: Could you repeat the question, Middle East, you were saying, or I think what you said was 40% to 50% of our international revenues are from Middle East. And have you seen any impact, right?

Palak: Yes. Correct.

Rahul Sahai: Yes. So, in the last quarter, we've not really seen any impact. It would be hard to comment on this quarter, the subsequent quarters. But in the last quarter, we haven't really seen impact.

Palak: Okay. Sir, just last question. So, considering the current energy crises situation, are we seeing the demand on the gas-powered power generators? Or do we have a strong portfolio in that segment?

Rahul Sahai: Look, we have a pretty strong portfolio across the board company something that we would back. And every demand and every opportunity that comes up, we will go out and strive to meet that demand.

Gauri Kirloskar: And I think what I would add to Rahul's comments is we developed engines that run on different fuels and it was defined in our technology track, so about 3 years ago it's in our investor materials where we talked about developing internal combustion engines that run on gas or ethanol, methanol or blends of hydrogen, etcetera. So, if there is demand that picks up for any of these alternative fuels, then we are ready to address that.

Palak: Have you seen any pickup in the inquiry for this specific segment?

Rahul Sahai: Which market are you looking about?

Palak: I mean the alternate engines power generator.

Rahul Sahai: I would say that there's nothing meaningful to talk about as far as this conversation is concerned. We are obviously hopeful, but nothing meaningful at this point.

Moderator: Your next question comes from the line of Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: Hi Gauri and Rahul. Congratulations on a great quarter. hope I am audible?

Gauri Kirloskar: Yes, you are audible.

Parikshit Kandpal: So, my first question is on, I mean, we have seen a substantial increase in copper prices. And now this last quarter, we have seen almost 15% increase in pre island prices. So, have you taken any price hikes already for this correction? So, if you can bifurcate between the copper and the pig iron because pig iron is a recent phenomenon. So just your views on that?

Gauri Kirloskar: We won't be able to comment on that because it pertains to this quarter.

Parikshit Kandpal: What about copper because copper has been rising throughout the year, so last financial year have we taken any price hikes?

Gauri Kirloskar: So, when -- as and when there is raw material -- I mean we continue to evaluate our pricing policy, and we take price increases at regular periods. Yes, that's where we are.

Parikshit Kandpal: Can you quantify how much price hike you have taken in FY26?

Rahul Sahai: No. We can't.

Parikshit Kandpal: Okay. Sure. Second question is on HHP side. So, is this engine totally localized, meaning are we manufacturing it in house, especially on the HHP portfolio?

Rahul Sahai: Yes.

Gauri Kirloskar: It's developed by our own engineering teams and its completely localized.

Parikshit Kandpal: Just one question on the needle and investments which are doing, I think you mentioned about gas turbines, transformers, energy storage solutions. So is it the research which will go into and the product rollouts will happen in some years. So how does one look at this, which comments that you have given on the background of the research you're going to undertake on this?

Gauri Kirloskar: We could say your question very clearly. Sorry, could you just speak a little slower and more clearly?

Parikshit Kandpal: Yes. So, in the announcements on the incorporation of the new entity Netherlands, you have given a brief background about the businesses which will happen in this. So, there's a mention of gas turbines, transformers, energy storage solutions, including batteries. So just wanted to

understand a little bit more. Is this new business line when we will do manufacturing here or is it in a very initial stage can give some more color on these new verticals.

Rahul Sahai: Yes. So, look, we've outlined our technology path. And there is a focus on different combustion technologies also, but there's nothing significant to speak about at this point in time.

Gauri Kirloskar: And I think you're also referring to the format, which is disclosed, and that's the incorporation of a company. Usually when we define that, it concludes everything that we could possibly do, doesn't necessarily mean that we will do it.

So, looking at international, looking at the power systems space, that can involve a range of technologies over time, which is what we're trying to address in the description. It may not be where we are today. Does that make sense?

Parikshit Kandpal: Yes, understood. Understood transpiration. So, it may happen and not happen is what you're saying.

Gauri Kirloskar: Exactly, exactly.

Parikshit Kandpal: The last question on the power gen revenues. So, if you can give us some color on what was the data center contribution on -- and how are you looking at the journey from Colo to. So what's the presence in Colo right now? Edge and how are you looking to get into the hyperscalers?

Rahul Sahai: Yes. So, I think some sense that question is leading. But yes, so we are present in Edge and Colos, and we are solely also making our presence in hyperscalers, too. It would be premature to give out those contributions at this point in time. So, I would reserve my comments here.

Parikshit Kandpal: But will it be single, double digit, only double digit, any color at least on the contribution of everything on the power gen revenue base?

Rahul Sahai: I mean, we certainly sight for double digit as far as contribution is concerned, but yes.

Moderator: Next question comes from the line of Sourabh Arya with Oaklane Capital.

Sourabh Arya: Am I audible?

Rahul Sahai: Yes, go ahead.

Sourabh Arya: Congratulations, Gauri, Rahul, Sachin and to the whole team. My question is actually, of course, you have not commented on the new products, etcetera. But I want to understand from you like in terms of R&D, how, as a percentage of sales, it is going up for us? Or if you could talk about any patents, etcetera, in terms of number of patents, which are increasing for the company or not?

And why I'm asking this is, I came across this latest patent, which was on maybe hybrid generators. And of course, Rahul's name was there. So, it's quite encouraging to see CEO of the company and it is there on the patent. So maybe some thoughts on how R&D and new products will come together if you could show something like there?

- Rahul Sahai:** So maybe we'll talk about R&D as a percentage of sales, maybe Sachin you can.
- Sachin Kejriwal:** So, Sourabh, R&D as a percentage of sales is roughly 2% on the revenue side and 2% on the capex.
- Sourabh Arya:** So, is there any increase there, year-on-year? Are you putting more efforts there?
- Sachin Kejriwal:** Yes, yes. So, it's steady at 2%. But with our sales pattern is going up, so R&D expense is also going up because we are taking the same rate of 2%, 2.5%.
- Sourabh Arya:** Okay. And second, I think, Gauri, at the start of the call commented that international is now more than export. So, does it mean Kirloskar's Americas portion of business is doing well, if you could comment on that? Because we've been in Americas for quite a long time and after, of course, Middle East, how the traction is happening there?
- Gauri Kirloskar:** No, no. So, I didn't say international was more than export. I was just saying that the way we look at our business outside of India is what I call international rather than export, just the difference between the two, say, business models. Exports is when you make locally when you ship out to like an agent or a distributor and you just -- you have no presence there yourself.
- Versus an international business, which is what we are trying to build, which is we will first understand each market very deeply before we decide how we're going to enter and then we actually have to invest in capability and people and possibly set up some sort of manufacturing there perhaps and then we're deeply entrenched in that geography. So that's what my commentary was about. So I'm not sure I understood your question.
- Sourabh Arya:** I was trying to understand I mean to say how Kirloskar America is doing now. Like in this year has it done well then other regions because of course we'll have to wait for annual report for it to come, but if you could give some qualitative colour how that has done for you?
- Rahul Sahai:** I think this past year Kirloskar Americas has been, I mean, there's a lot of effort that we are putting in the Americas region, but at this point in time, you may not, I mean, there's nothing meaningful or significant to discuss at this point in time.
- Sourabh Arya:** Sure. I am saying very lastly in terms of single engine, can you tell us like what is the exact size of single engine you are selling right now like I know Optiprime series is there which can take you to 3,000 and all, but in terms of single engine, what is the maximum capacity you are selling?
- Rahul Sahai:** So like our nuclear power execution is single engine 6.3, like basically around 8,000 kVA, 6.3 megawatt.
- Sourabh Arya:** Okay. Sure and then for data centers, etcetera?
- Rahul Sahai:** For data centers right now we go up to 1,650 in single engine and I mean, obviously we are on track to increase that as well.
- Sourabh Arya:** Perfect. Thank you very much. All the best to the team.

- Rahul Sahai:** Thank you.
- Gauri Kirloskar:** Thank you.
- Moderator:** Thank you. The next question comes from the line of Prateek Shrivastava from Nivesh Wisdom. Please go ahead.
- Prateek Shrivastava:** Yes, thank you sir and ma'am for the opportunity for taking my call and again wish you congratulations again on the very great set of numbers. Today there is some problem with this conference line, I'm not sure if the moderator is seeing that, but calls are getting disconnected. So I'm not sure if any question on Arka's asset quality was taken. But in Q3 concall, the GNPA numbers were 1.2 and the NNPA's were 0.3. Can you please provide what are the updated numbers as of today for GNPA and NNPA on Arka?
- Gauri Kirloskar:** Ridhi are you there? Can you answer?
- Ridhi Gangar:** Yes. So the GNPA number for Arka as of 31st March 26 is 1.2, so it remains at the same level. And NNPA also remains at the same levels of December, which is 0.3%. And in absolute terms, the GNPA has actually come down.
- Prateek Shrivastava:** Great to hear that. The other question was on the order value. I guess Rahul sir mentioned that in last Q3 concall, this was the order around the nuclear NPCIL and the marine order. I guess the combined order at that point was INR798 crores. The execution was 2-year timeline. Any update on the execution of this order and are we on track?
- Gauri Kirloskar:** The NPCIL order execution is by 2029.
- Prateek Shrivastava:** Okay. And is there any update? Are we – is there like any are we actively working on it or we've got to start any kind of any colour you can throw on the execution timeline?
- Gauri Kirloskar:** Yes. All the teams are actively working very hard on it because the execution is absolutely critical for us to do on time and it gets tracked on a regular cadence, it's project managed and we are on track to deliver it by the timelines that we have committed to.
- Prateek Shrivastava:** Got it. And do we have any like quarterly revenue recognition in this order?
- Gauri Kirloskar:** I mean, as the billing happens, yes, we will recognize revenue.
- Prateek Shrivastava:** Okay, but that hasn't started happening yet, right?
- Gauri Kirloskar:** No.
- Prateek Shrivastava:** Yes, okay. Thank you, ma'am, for the answers and again all the best for your continued future.
- Gauri Kirloskar:** Thank you for good wishes.
- Moderator:** Thank you. The next follow-up comes from the line of Jason Soans with IDBI Capital. Please go ahead.

- Gauri Kirloskar:** Since it's 8:00 PM, could we request that this is the last question, please?
- Moderator:** Sure.
- Jason Soans:** Yes. Ma'am, just final two questions. Just you did highlight some segments which are contributed to the growth in industrial. Now for the same thing, I just wanted which is the areas of strength for PG, for Powergen and some areas of strength, any weakness in certain areas, just some qualitative color on demand for the PG segment.
- Rahul Sahai:** So look we take a lot of pride in the fact that we can offer solutions that are practical to our customers. So I mean, if there were weaknesses, we would certainly try and plug those weaknesses over a period of time. We are focused on -- focusing on our high horsepower customers, that remains a consistent focus. So I think I won't be able to comment more than that right now.
- Jason Soans:** No, actually I wanted to say in terms of segments. It's not that the portfolio, I meant in terms of let's say residential or hospitality or certain segments, that's how I wanted to approach the question in terms of industry verticals?
- Rahul Sahai:** Yes, I mean, so it's actually, I mean it's actually pretty broad-based. So it becomes pretty hard to answer it like that, but it's pretty broad-based.
- Jason Soans:** Okay. Sure. And just finally, the 14 billion capex, the peak revenue potential, what can it be and in how many years can it be some broad colour on that. The 14 billion, what is the peak revenue potential and how many years you aspire to eventually reach it?
- Sachin Kejriwal:** So the capex which we have announced is INR1,400 crores and what we said that we are targeting to complete the capitalization in next 2 years. So from therein the revenue will start kicking in our P&L.
- Jason Soans:** Right. Yes. So what could the peak revenue be for that?
- Sachin Kejriwal:** So at the asset turn of 4, you can calculate it will be close to 5,000 crores, 6,000 crores.
- Jason Soans:** Sure. So asset turn of 4. Sure. Thank you so much for answering my question. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, we will take that as a last question for today. I now hand the conference over to the management for closing comments.
- Gauri Kirloskar:** Yes, thank you very much for all your compliments to the team and thank you for your interest in the company. Good night.
- Moderator:** Thank you. On behalf of Antique Stock Broking Limited, that concludes this conference. Thank you everyone for joining us and you may now disconnect your lines.