"Kirloskar Oil Engines Limited

Q2 FY27 Earnings Conference Call"

November 05, 2026

MANAGEMENT: **MS. GAURI KIRLOSKAR – VICE CHAIRPERSON AND MANAGING DIRECTOR – KIRLOSKAR OIL ENGINES LIMITED**
MR. RAHUL SAHAI – CHIEF EXECUTIVE OFFICER – KIRLOSKAR OIL ENGINES LIMITED
MR. SACHIN KEJRIWAL – CHIEF FINANCIAL OFFICER - KIRLOSKAR OIL ENGINES LIMITED
MRS. KIRAN KHAPRE – CHIEF HUMAN RESOURCES OFFICER – KIRLOSKAR OIL ENGINES LIMITED
MS. AMRUTA THIGALE – COMPANY SECRETARY – KIRLOSKAR OIL ENGINES LIMITED
MR. SAMRAT GUPTA – MANAGING DIRECTOR – ARKA FINCAP LIMITED

MODERATOR: **MR. SANJEEV ZARBADE – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day and welcome to the Kirloskar Oil Engines Limited Q2 FY27 Earnings Conference Call hosted by Antique Stock Broking. 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 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. Sanjeev from Antique Stock Broking. Thank you, and over to you, sir.

Sanjeev Zarbade: Thank you, operator. Good afternoon. On behalf of Antique Stock Broking, I welcome you all to 2Q FY27 earnings conference call of Kirloskar Oil Engines. I am pleased to have with us today Ms. Gauri Kirloskar, Vice Chairperson and Managing Director, Mr. Rahul Sahai, Chief Executive Officer, and Mr. Sachin Kejriwal, Chief Financial Officer.

May I now invite Ms. Gauri Kirloskar to discuss the results, post which we can take the Q&A. Over to you, ma'am. Thank you.

Gauri Kirloskar: Thank you very much. Good afternoon, ladies and gentlemen. A warm welcome to all of you, and thank you for joining us today to discuss Kirloskar Oil Engines Limited financial and operational performance for the second quarter and first half of fiscal year 2027. Joining me today are Rahul, CEO, Sachin, CFO, Kiran, CHRO, Amruta, Company Secretary, and from Arka, we have Samrat, the Managing Director.

I am delighted to share that Q2 FY27 has been a milestone quarter for KOEL. Driven by solid execution across all our core divisions, robust domestic demand, and our expanding international footprint, we have achieved our best top-line performance across both standalone and consolidated operations.

Our consolidated quarterly revenue crossed the INR2,000 crores threshold, reaching INR2,257 crores, our best quarter ever, representing a growth of 17% year-on-year and 14% quarter-on-quarter.

On a standalone basis, revenue scaled to an all-time high of INR1,722 crores, registering an increase of 19% year-on-year and 18% sequentially. This performance was anchored by strong execution across our primary growth engines, power generation, our distribution and aftermarket business unit, and our international business.

While our top-line momentum has been strong, the operating environment during the quarter was marked by intense macroeconomic volatility. Sharp rise in prices of crude oil and commodities like copper, aluminium, and pig iron worked as primary headwinds.

Despite these, our standalone EBITDA came in at INR191 crores, translating to an EBITDA margin of 11%. While margins compressed year-on-year due to the input price inflation, we held margins broadly stable quarter-on-quarter, softening by just 30 basis points through disciplined operational execution. To systematically counter these cost pressures, we have deployed a three-tiered framework.

First, on pricing, we implemented targeted price increases across business units. Second, our engineering team continues to work on driving improved power density and delivering high-value products to our customers. Third, we are averaging higher volumes for better fixed cost absorption while driving strict corporate discipline across discretionary expenditure.

Turning to our business unit performance, our power generation business had an exceptional quarter, posting revenues of INR792 crores, a 17% year-on-year increase. We also strengthened our leadership position in the domestic genset market with clear market share gains across the portfolio.

We are particularly encouraged by our progress in the High Horse Power applications, a strategic focus for us, where reliability, controls, and service capability are critical to customer choice. A clear indication of this is that our market share in the 1010 kVA node is now upwards of 30%.

Another bright spot for us is the traction we are seeing with our Optiprime range, which is now seeing strong demand across key segments like data centers, real estate, hospitality, and manufacturing. This reflects the progress we have made over the past few years in strengthening our offerings and serving customers with more demanding power requirements.

Our industrial business delivered a steady performance this quarter, recording revenues of INR381 crores, which reflects a 2% increase year- on- year. To proactively counter commodity cost headwinds, we are partnering with our key OEM partners to implement targeted price increases.

This quarter, we also formalized a flexible service agreement with DEUTZ to expand the global distribution of our 1.6 L global standard engine platform, with an initial focus on the Americas. This is a testament to our engineering design, development, and manufacturing capabilities for advanced emission countries.

Also this quarter, our newly formed subsidiary, Kirloskar Advanced Systems, completed its maiden commercial billing, marking our entry into specialized high-precision defense and aerospace systems. Our distribution and aftermarket business unit, or DABU, maintained strong momentum, growing 29% year-on-year to INR293 crores.

We are making tangible progress in diversifying beyond traditional engine spares through our whole goods segment, including Nulife, which is our repowering and reconditioning business. Our fluid dynamics business had a strong quarter. Operating revenue grew about 28% year- on-year to INR331 crores.

The growth was broad-based, with domestic sales growing about 24% and exports about 32%, with growth across diesel pump sets, industrial pumps, and electric products. Channel expansion has been our biggest driver. We appointed several new dealers and master distributors through the year, along with widening the product basket with new SKUs and allied products.

This is translating into share gains where we focused, with KOEL Fluid Dynamics now achieving market leadership in the engine-driven industrial pump segment. International was

one of the strongest parts of the quarter. Historically, the international business was primarily firefighting OEMs in Middle East and mining operations in South Africa.

Two years ago, we had implemented changes to our international business structure by focusing on strengthening our channels and building partnerships with GOEMs. This quarter reinforced that we are on the right track, with PowerGen now becoming a key driver for growth, now contributing over 45% of the international business.

As for our operating view, the international business surged 59% year- on- year to INR413 crores on gross consolidated basis, now contributing approximately 20% of our total sales mix this quarter. This growth has been broad-based across regions and businesses, rather than driven by one shipment.

In Africa, we saw strong execution in high-horsepower power generation for mining and infrastructure, and we added new distributor relationships in markets such as Angola and the Democratic Republic of Congo. In the Middle East, rental and contractor demand in the UAE drove record secondary sales through our channel.

East Asia has become a meaningful new contributor. On Optiprime, we secured an order in Zambia and dispatched our first systems to China, early steps in our international data center and mission-critical journey. Beyond power generation, our industrial exports picked up with new OEM customers in North Africa, Turkey, Saudi Arabia, and East Asia.

Our pumps business also grew exports by about 32%. Order intake has been significantly stronger than a year ago, and we delivered this growth despite container shortages and shipping delays. So underlying demand was stronger than reported revenue.

International business is naturally uneven quarter to quarter, so we would ask you to judge it by repeat orders, customer diversity, and collections rather than one quarter's growth rate. In financial services, Arka Fincap closed the half year with assets under management of INR7,781 crores and delivered a profit after tax of INR11.5 crores while maintaining healthy asset quality, with net NPAs improving to 0.5% at the end of Q2 FY27.

With Arka's branch network expanded to 146 branches and over 2,000 employees, Arka continues to focus on scaling its retail business, returns from which are expected to begin flowing in from the next fiscal. Looking ahead, while commodity cost pressures will require continued vigilance, our balance sheet remains resilient. We maintain a healthy net cash position of INR309 crores, supported by AA+ long-term and A1+ short-term credit ratings.

With the implementation of our pricing adjustments, our active value engineering pipeline, and expanding market opportunities in data centers, international markets, and new technology partnerships, we are confident in our ability to sustain both top-line growth and margin recovery in the quarters ahead.

I would like to extend my sincere gratitude to the entire Kirloskar team for their execution, to our channel partners and vendors for their collaboration, and to our shareholders for their enduring trust. Thank you very much.

I will now hand over the call to Sachin for his remarks on financial performance.

Sachin Kejriwal: Good afternoon, everyone, and thanks, Gauri, for the update. I will give a quick overview of the financial performance for our standalone and consolidated business. The results and the detailed presentations for today's call have already been uploaded on the exchanges and our website.

Q2 FY27 has been a period of remarkable top-line growth for us, establishing historic milestones for quarterly sales. The strong performance was highly broad-based. Standing out in our performance is that Kirloskar achieved its highest-ever standalone quarterly sales of INR1,722 crores, registering an impressive 19% growth year-on-year.

For the first half of the year, standalone net sales reached INR3,184 crores, which is healthy 17% growth year-on-year. Coming to our financial performance overview, I will start with standalone performance first, comparing our results for the quarter and half year.

For Q2 FY27, net sales at INR1,722 crores versus INR1,449 crores in Q2 FY26, registering a 19% increase year-on-year. EBITDA at INR191 crores versus INR204 crores in Q2 FY26, representing a 6% decrease year-on-year, as we absorbed temporary input cost pressures. EBITDA margin at 11% versus 14% in Q2 FY26, reflecting the impacts of the raw material cost inflation Gauri mentioned.

Net profit from continuing operations at INR115 crores versus INR134 crores in Q2 FY26, showing a 14% decrease year-on-year. Now coming to H1 FY27 standalone performance. Net sales at INR3,184 crores versus INR2,711 crores in H1 FY26, reflecting a robust 17% increase year-on-year. EBITDA at INR357 crores versus INR376 crores in H1 FY26, registering a 5% decrease year-on-year. EBITDA margin was 11.1% compared to 13.8% in H1 FY26.

Net profit from continuing operation at INR214 crores versus INR243 crores in H1 FY26, a 12% decrease year-on-year. Our net cash position net of debt and including treasury investments remains solid and strong at INR309 crores. Our working capital position remains disciplined and healthy.

Our cash conversion cycle remains stable at 31 days, showing efficient working capital management despite scaling higher volumes. Net inventory days improved by one day to 63 days as compared to the prior quarter. Net receivables days stood at 43 days, with our total portfolio health remaining strong.

Coming to the breakdown of our standalone sales for the quarter, the strong sales momentum was driven by solid double-digit expansion across three of our four core business units. PowerGen led the performance at INR792 crores, representing a stellar 17% increase year-on-year.

Industrial business was at INR381 crores, recording a steady 2% increase year-on-year. Distribution and aftermarket was at INR293 crores, showing an impressive 29% increase year-on-year. International business surged to INR257 crores, registering an outstanding 50% increase year-on-year.

Now turning to our consolidated performance for the quarter. Revenue from operation at INR2,284 crores versus INR1,951 crores in Q2 FY26, representing a strong 17% increase year-on-year. Net profit at INR130 crores versus INR159 crores in Q2 FY26, a decrease of 18% year-on-year.

Please note that these numbers are reported for continuing operations only. Looking at the consolidated segment performance for the quarter, the B2B segment revenue grew 20% year-on-year to INR1,745 crores, with segment results PBIT coming in at INR148 crores.

The B2C segment revenue expanded by 28% year-on-year to INR330 crores, while segment results PBIT grew 26% year-on-year to reach INR23 crores. The financial service segment Arka recorded a revenue of INR209 crores, with its segment results PBT standing at INR6.1 crores.

To conclude, I would like to extend my sincere congratulations to the entire KOEL team for their contribution to this landmark top-line performance. The scale we have achieved this quarter reflects the operational agility, resilience, and execution capability across the group.

We are preparing ourselves to tackle the ongoing macroeconomic volatility with strict discipline, focusing on profitability enhancement and efficient resource allocation. Stay confident that we remain fully committed to taking steady, measured steps to deliver sustainable value to all our stakeholders.

With this, I would like to open the floor for the Q&A session.

Moderator: Thank you. We will now begin with the question-and-answer session. The first question comes from the line of Jason Soans with IDBI Capital. Please go ahead.

Jason Soans: Yes, thank you for taking my question. First question just pertains to the PowerGen growth for first half is around 18%-17%, 17%, 18% for first half. Would it be possible to just break it down into volume and pricing growth?

Sachin Kejriwal: Jason, we don't provide the pricing and the volume growth for the PowerGen business. Higher 17% growth we have witnessed in Q2.

Jason Soans: Okay. Next question just pertains to, I mean, the industrial segment basically clocked in 2% revenue growth Y-o-Y. Any reason for this weakness in this quarter?

Rahul Sahai: Hi, Jason. It is more of an execution. We had some challenge on the execution side, but this doesn't reflect the demand in any way, neither does this reflect our trajectory on the industrial side.

Jason Soans: Okay. I just wanted to know also, I mean, we've clearly seen, I mean, now we have a little high base here with the FY26 exhibiting really strong growth. There is a considerable high base, and we are seeing some deceleration happening. I understand macro headwinds are there in terms of input prices and stuff.

I just wanted to know from this levels now, how do you see H2 shaping up? Is it better or is it going to kind of be the same kind of trajectory? Just some color on that. How is the demand shaping up? I just wanted some color on that?

Rahul Sahai: Yes. Look, the work that we're doing as far as building out the exports business, now when we say exports, it's a generalization across different markets globally. But all of that work is at a very fundamental level. The demand continues to be strong, and we continue to move towards our stated 2 billion ambition.

Jason Soans: Okay. Sure. Lastly, just wanted to know on the HHP side, how are things shaping up, certifications, any prospects for basically entering the high-value data segment, basically growing the HHP portfolio? Just wanted to know how is that shaping up. Would it be possible to give certain numbers? How much is HHP a part of the PowerGen segment? Just some color on it?

Gauri Kirloskar: Yes. On certifications, I'm assuming you mean the regular CPCB IV+ certifications, which anyway are done because it's only up to 800 kilowatt. When we talk about HHP, it doesn't really factor in. In terms of the progress that we're seeing, as I mentioned in my opening comments, and as we've talked about in the past as well, what we've generally seen when we introduce nodes or new nodes is that we can get to, I'd say, 10%-15% market share just by being present in the market.

Sequentially, as we've introduced products, we have seen our market shares grow. We've talked about 750 in the past. Today, I mentioned 1010 kVA node where we are now at market shares of upwards of 30%. So that's the progress that we've made, and that's the focus that we'll continue to have on the HHP segment.

Jason Soans: Sure. Just one thing, actually, I did touch upon the contribution from a high horse power. Any comments on that? How can you see H2 shaping up?

Rahul Sahai: We cannot share those details.

Gauri Kirloskar: Yes. I mean, we are moving towards our $2 billion goal, which by FY30. Sequentially, and you know how we operate, I would say quarter-on-quarter, with Q4 normally being the strongest quarter. I mean, that is about what I can say in terms of the rest of the year.

We will be focused on execution and focused on the demand, the robust demand we are continuing to see from the markets and the segments that we are in. I think the main programs and the parts that we have to focus on are on the profitability side and making sure that we can maintain and improve our margins.

Jason Soans: Sure. Thank you so much for answering my questions. Thank you.

Moderator: The next question comes from the line of Lavina Quadros with Jefferies Group. Please go ahead.

Lavina Quadros: Yes. Hi. Thanks. Just a couple of questions. Any industry price hikes that have been taken in the domestic genset markets from September to offset the commodity price impact? More generally,

you do not have to quantify exact. Secondly, on the export side of DEUTZ, any incremental information you can share on maybe how big it could become, especially in context of your 2030 target? Lastly, just on the data center order, any color on progress there? Thank you.

Gauri Kirloskar: Okay. Let me start with DEUTZ. Like I mentioned, it is very significant for us because it is a global engine company that has chosen us as a supplier for advanced emission countries. In terms of our goals and in terms of what we have been trying to do, in terms of our in-house engineering, it really is a testament to that strength that we have been able to develop a globally competitive engine platform.

There is not much I can say in terms of annual revenues from that account because that ultimately depends on the end customer, and I would not want to give a number that is wrong in that sense. It is going to be hard for me to provide guidance there. In terms of the pricing, I will just ask Sachin to just chip in here.

Sachin Kejriwal: Thanks, Gauri. Pricing differs by business and customer type. A single company-wide percentage would be misleading in general business. Pricing can flow through relatively quickly with large OEM customers. There is a negotiation and implementation cycle, and the existing order book can contain prices agreed before the latest commodity movement.

Gauri Kirloskar: On your last question, on the data center order that we have announced, as often happens in physical infrastructure projects, there has been a delay at the customer's end. We are continuing to work very closely with them on the revised schedule, and we are fully engaged on the technical and commercial aspects of the project. We will share an updated timeline once the customer confirms it.

Lavina Quadros: Great. Thank you.

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

Ankur Periwal: Yes. Hi. Thanks for the opportunity, and congratulations for a strong revenue growth there. First question on the international side. Even if I leave for Q2 and look at H1, plus 25%, almost 25% sort of a revenue growth there. If you can sort of highlight some thoughts, how should one look at the export part of the business over the next, let's say, two to three years, given the distribution tie-ups, the expansion in the network, as well as the new JV that we have signed up?

Gauri Kirloskar: Yes. Just for some background, if we go back a couple of years, the big effort that we had to make was we were primarily a domestic business catering to the domestic market. Because of CPCB IV+, we now had our main PowerGen portfolio essentially ready to be exported to the advanced emission countries as well.

Because of that, we had stated this ambition to grow exports to 30% of our revenues by fiscal year 2030. In fact, that was our ambition even in our 2X3Y goal. A lot of the work that we had to do was internal. It was internal. It had to do with the kind of teams and structures that we have in our own organization abroad.

It had to do with what kind of business models we were looking at, which countries we were focusing on, and which business model is therefore the appropriate one for that country's competitive dynamics and market situation. A lot of the traction that we're seeing now is a result of that work that we have done on our internal organization, talent, partnerships, whether it's gensets OEMs or whether it's strategic partnerships like the one with DEUTZ.

In terms of what we're seeing, I think we're just seeing some of the results of that coming along, and of course, on a smaller base that we had before. I think the most significant thing for me this quarter, which I think we mentioned in the opening notes, was that PowerGen is now really driving a lot of the international revenue rather than the industrial business.

Most of our business used to be engines to firefighting OEMs in the Middle East and mining engines for South Africa. That's really pivoting to power generation, which is our main strength. In terms of the next two to three years, and what we aspire to do, it remains the same, which is to have international be 30% of our business.

Ankur Periwal: Sure, Gauri. That's very helpful. Second question on your comment on the RM pressure and the strategies that we are trying to sort of build up there to mitigate that. At the same time, we did mention that we'll be focusing on higher volume, so operating leverage friction as well.

Just trying to understand the balance between the RM inflation or the cost inflation pass-through, as well as our focus to gain higher volumes. I'm sure there'll be separate strategy for HHP, LHP, etcetera, but if you can throw some light in terms of the overall growth as well as maintaining the balance from a margin perspective. Thank you.

Rahul Sahai: Yes. Look, the RM inflation is an industry-wide problem, and we're all working to best manage it. As we do that, we are taking very calculated calls by product. There is not a single broad-brush answer that I can give you, but our full intent is to ensure that we support our customers in the best way we can, and obviously protect our margins at the same time. We are endeavoring to pass on the inflation to the extent possible. But it's not just a mathematical calculation that we're doing.

There are a lot of programs that we have going on continuously, where we're looking at a combination of product management, which is product upgrades and the product tailoring that we're doing for different customers, trying to create value as well through unique product offerings like our Optiprime Hybrid Systems. There's a lot of work, but what I can say is we are fully committed to protecting our margins, and we are looking to sequentially improve that.

Ankur Periwal: Thanks, Rahul. Just one follow-up, if I may. The price hikes across the categories, regions that we would have taken right now versus the inflation, what is there at the current pricing, are we largely done in terms of breaking even or passing on all the RM inflation, or there is still some shortfall there?

Rahul Sahai: We're seeing inflation, and given the global geopolitical situation, we're seeing inflation to be a recurring phenomenon, and we will continue to endeavor to pass that on. I don't believe that we are done.

Ankur Periwal: Okay, great. Thanks for all the answers and all the best. Wishing you all a very Happy Diwali. Thanks.

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

Teena Virmani: Yes, hi. Thanks for taking my question. A few of my questions have already been answered, but one or two questions on the other expenses. Just wanted to check if there is any specific reason for a sharp increase in the other expenses that we have seen in the current quarter.

Also on a broader basis, also leaving aside Q2, going ahead, when can we start witnessing operating leverage gains? Our volumes have been fairly strong across divisions. Just wanted to understand on how these other expenses, how have they been in 2Q and how to control them going forward to get operating leverage gains? This is my first question?

Sachin Kejriwal: Yes, thanks, Teena. In terms of the cost increase in Q2, if I classify it into three, four heads, one is employee-related expense. We have our merit cycle which starts from Q2, so that is the increase you see. We will continue to invest in our talent to support the growth of 4X5Y journey.

Secondly, because of the crude prices going up, we have seen that a lot of cost has gone up on the indirect expense and consumable side. So, one place we see the cost is going up. On the sales promotion side, as a company, we will continue to participate in those global marketing events where we will showcase our product. We have done couple of them in Q2. That is again where the cost has gone up.

I would rather say those are the investments which we are making in Q2. Going forward on the operating leverage, what I can say that we have already incurred part of the capability cost required to support the future growth. Incremental revenue should provide better absorption if we execute well in coming quarters, Teena. We will start seeing those leverage gains, yes.

Teena Virmani: Okay. So, maybe from H2 or maybe from FY28 onwards, we can start witnessing at least some operating leverage gains?

Sachin Kejriwal: Yes, it should start, yes.

Teena Virmani: Okay. My second question is on distribution and exports segment growth. Both these segments have done very well in the current quarter. You have highlighted, and Gauri has also mentioned about the strategies that you have put forward for both the segments to grow these.

Are these numbers the new norm in distribution and exports, or there was a benefit of some kind of pent-up which would have been left out in Q1 and would have come in 2Q, particularly on the export side? So, how to see through these growth numbers in distribution as well as in exports going forward?

Rahul Sahai: Hi, Teena.

Teena Virmani: Hi, Rahul.

Rahul Sahai: You will be familiar that both for these businesses, whether it is distribution business or whether it is international business, a lot of fundamental work regarding setting up channels, understanding the products that need to be placed there. There is a lot of basic work that needs to be done. Now, in our case, a lot of that work is done.

What I can say is that there are no one-timers in either of the businesses. There is a very core franchise that is being built, and we are only seeing the results of the work that we have been doing over the last couple of years.

Teena Virmani: Okay. When we see a rising share of, let us say, distribution and exports, technically that should also help in improving upon the margin profile. Can we expect that also to yield, or there are still some more costs which need to be incurred to grow these businesses going forward?

Rahul Sahai: Correct. If you remember the conversations we have had, we are saying we are looking at getting into more complex and technically advanced products like our HHP products, growth in international business, and growth in aftermarket. These are also the stated margin drivers.

We will continue to focus on these product lines to improve our margins going forward as well. We continue on the stated game plan. Your point of the costs, if there are further costs that are there are no further costs. All the costs have been booked. We continue to focus on these three areas for improving our margins.

Teena Virmani: Okay, understood. Just one last bookkeeping question is on the capex side. Is your capex target for the full year intact? What would be your guidance now for the full year capex for this year?

Sachin Kejriwal: Teena, already we have announced that we will be doing INR2,100 crores of capex, and that work has started. Our first line will be up and running in next financial year. The INR1,400 crores which we announced just last year, the work has started for that. Hopefully by FY28, 2029, that capex production will start on those.

Teena Virmani: Okay. This year, you will be doing more or less around INR600 crores-INR700 crores of capex for the full year?

Sachin Kejriwal: Yes. So, as per planned, we will be executing our capex program for this financial year.

Teena Virmani: Understood. Thank you. I will come back in the queue.

Moderator: The next question comes from the line of Priyankar Biswas with JM Financial. Please go ahead.

Priyankar Biswas: Yes. Thanks for the opportunity. So my first question is, I had seen in the presentation that you had highlighted that there were significant market share gains in MHP and HHP, and in particular, it has been written that the MHP market shares were at a record. So, can you show some color in two ways?

So one is, on a, let us say, Y-o-Y basis, so how much market share, broad ranges will suffice, that you may have gained in MHP and HHP? And going forward, based on your 4X5Y plan that you have, so what sort of, let us say, aspirational MHP and HHP market share do you expect in the industry?

Rahul Sahai: Yes. So, look, we do not give out market share data by nodes, but what I can say is that, like Gauri mentioned a little earlier, our strategy is to go node by node and to ensure that we put our best foot forward, both in terms of product, in terms of pricing, and in terms of the overall value package delivery.

And if you look at the record, we've done that historically on the LHP side, and over the past 1.5 years, we are seeing that on the MHP side as well. As per our internal estimates, we would be amongst the largest MHP PowerGen manufacturers domestically.

And like Gauri mentioned earlier, our next focus is on the HHP side. We are already doing that on the 1010 kVA, which is our first node on the HHP, and our intent is to continue to expand that, I would say, presence across all the HHP nodes.

Priyankar Biswas: So sir, just broadly, again coming back to that question only. Because one of your key growth drivers on the higher horsepower is of course the Optiprime, especially you were talking of data centers. If you can elaborate, besides what Gauri ma'am said on the opening remarks, like the first consignments to China and otherwise, what is the incremental data center traction that you are seeing?

And also, if I recall, you have an American subsidiary also. Given that we had the midterm elections of late, is there any, let's say, improvement or worsening of the outlook from the American subsidiary point of view?

Rahul Sahai: At this point, there is nothing specific to report here. At the right time, we might be able to, when we can talk about it, we will certainly talk in detail.

Priyankar Biswas: But about the HHP, if you can say something. Sorry, about the data centers, if you can say something, like what sort of traction you are getting for the Optiprime, other than the HyperNext order that is already there?

Rahul Sahai: Yes, so we are getting a lot of acceptance from all the hyperscalers, colos, neoclouds. We are engaged with most of the data center operators. As and when there is something to report, we will certainly report it.

Priyankar Biswas: Okay, sir. That is broadly from my side. Thank you so much.

Gauri Kirloskar: Thank you.

Moderator: The next question comes from the line of Jeetu Punjabi with EM Investco Capital Advisors. Please go ahead.

Jeetu Panjabi: Yes. Hi, Gauri and Rahul. It's really good to hear the strong demand in the numbers. Gauri, I'm going to point to a comment in your opening comments, which was the underlying demand dynamics are much stronger than in reported numbers. If you were to just take this forward and translate this over the next few quarters, it kind of leads to some very, very strong numbers going ahead, and I'd love your thoughts on that.

Also you made a comment on some new defense maiden order, and that was the business that was quite promising. Do you see this taking off in the next year or two in a significant way? What are your thoughts on that?

Gauri Kirloskar: I'll let Rahul answer your question, Jeetu. Thanks for them.

Rahul Sahai: Hi, Jeetu. Look, this has been a labor of love. There has been a lot of effort that we've put in to build out the franchises that we've built out. If you just look at the strength of the domestic PowerGen enterprise that we have today, it's significantly better, larger than what it has ever been before for us.

We hope to continue on that trajectory. Like I was mentioning a little earlier, we are already in HHP and taking specific nodes and creating a game plan around each node. We continue to move upwards. We are certainly quite keen and excited to move towards the 2 billion stated ambition.

As far as Kirloskar Advanced Systems is concerned, you're absolutely right. The subsidiary was created to focus on system integration and development work specific to defense and aerospace. We have done our first commercial billing, but we do believe there is a large opportunity out there and we are actively going after it.

Jeetu Panjabi: Okay, super. My second question is on Arka. So you reported INR11.5 crores net, and you have kind of built out quite a bit. Is there a thought process on how this finds an independent life, as we talked earlier, through external capital coming in as well?

Gauri Kirloskar: Yes. So Jeetu, thanks for your question. I think that is been a consistent question across a couple of quarters. As we have stated before, right now, the focus of the company is to build out a granular secured retail franchise, particularly in two products, which is used vehicle finance as well as small ticket loan against property.

Right now, just in terms of some of the numbers, with Tier 1 capital exceeding 21%, leverage is below 3.8x , and GNPA is at approximately 1%. We are well capitalized, prudently leveraged, and have a resilient balance sheet. There is ample headroom for near-term growth.

Having said that, we remain committed to supporting the long-term growth ambitions, and we will be, and are evaluating appropriate private and public capital raising avenues. When these deliberations crystallize into anything definitive, we will make the disclosures as required.

Jeetu Panjabi: Okay, super. Thank you, and good wishes going ahead.

Gauri Kirloskar: Thank you.

Moderator: The next question comes from the line of Suraj Malu with Catamaran. Please go ahead.

Suraj Malu: Yes. Thank you very much for this opportunity. In the annual report, you had mentioned that in the Americas, currently there are three new families of engines that are in process of Tier 4 certification. Can you help understand what are these kVA of engines and are those any specific end use?

Rahul Sahai: Yes. So, hi. Look, we have different families and there's a much larger product plan. But our big focus area for certification for Tier 4 final in the U.S. is, one of them is to do with the program that we're working with DEUTZ that Gauri spoke about. The other products that we're discussing or that we have a roadmap of is more to do with our PowerGen business in the Americas. This spans across Kirloskar Americas as a subsidiary and Wildcat as a stepdown.

Suraj Malu: And there was one more paragraph where you had mentioned that KAC is playing a pivotal role for large-scale projects, like with key players in data center segment. Can you help elaborate on that as well?

Rahul Sahai: Yes. So look, we continue to stay engaged with a lot of end customers in the Americas through our subsidiary, Kirloskar Americas. This includes data centers. There are other players as well. At an appropriate time, we can give more technicolor. At this point of time, I think the information is proprietary.

Suraj Malu: Got it. And one last question is around the KASL. Like, what are the specific products that you will be working on in defense and aerospace? Is it just assembly, system integration, or like what are these products?

Rahul Sahai: So look, the products span across system integration, ground powering units. It goes to, we have done defense-focused ammunition type programs where there is rocket launchers and shells. It spans across a lot of different product categories, all of which are highly defense-focused.

Suraj Malu: Understood. Thank you very much.

Moderator: The next question comes from the line of Mohit Pandey with Citi Research. Please go ahead.

Mohit Pandey: Yes. Hi, Gauri and Rahul. First question is on the HHP 1010 node. If you could give a sense of how big would this node be within HHP and how many similar other nodes could be there which we could be targeting? And where you will find applications typically.

Rahul Sahai: Yes. Look, the applications for all of these would be largely standby power generation, but in the end use, as far as customer profiles span across real estate, could be hospitality. The end use pretty much varies quite a bit.

Now, if you look at the nodes that are there in high horsepower, at least the way we define it, 1010 kVA is the first node in high horsepower. Then you have another range that starts at 1250 to 1500 kVA, so that's the second node. The third node is 2000, and then there is a broad node, which is all nodes above 2000 kVA, because they vary quite a bit and it's more of a project and it's less standardized.

The reason why we said that 1010 kVA is significant for us because in our journey, it is the first HHP node where we've started full mainstream execution, and we're seeing significant share gains. That has been our core thesis all along, to figure out a game plan for each node and keep moving ahead. So now we've arrived into the HHP nodes, which is why we're quite excited.

Mohit Pandey: Understood. Thanks for that. Second question is around the demand and pricing dynamics. So, clearly it looks like demand is very strong across businesses for us. So in that context, assuming the key commodities start stabilizing at current levels, how fast do you think our margins can come back to, say, the levels they were three to four quarters back? Yes, because it seems that while demand is strong, price hike is a bit more clearly a complex process. So, yes.

Rahul Sahai: Yes, I mean, I think it's hard to answer it quantitatively, but what I would say is that if we see the RM inflation at least plateau off at these levels, then from just the way we manage our fixed costs and what we're trying to do, the controls we're trying to put on internal, the rings of defense that we've kicked off for internal cost cutting. We're pretty confident that we will endeavor to improve the margins. So, I think the critical part here is that the RM, the inflation has to plateau off at some point in time.

Mohit Pandey: Okay. Okay, sir. Thank you so much and wish you all the best.

Rahul Sahai: Thank you.

Moderator: The next question comes from the line of Kartik Kohli with Kotak Institutional Equities. Please go ahead.

Kartik Kohli: Hi, team. Thank you for taking my question. I know we've been talking about this since the start of the call, but I just wanted to get a better understanding of the pricing angle here. Just wanted to get a sense of how you are thinking of pricing when you're undertaking them. Are you leading the industry or are you following other players when they take such hikes?

And what has been the kind of response when you've undertaken hikes, which gives you the confidence that you will have to continue, or at least there is more room left on pricing for you? That would be my first question.

Rahul Sahai: Yes, I mean, look, at this point in time, we don't look at anyone else before taking our price increases. We do what is necessary and do what is best for the business. Pricing is a very, I would say, a detailed calculation. We understand the RM. We also have a reasonably good idea about the acceptability as far as price increases are concerned that the market can absorb. We try and balance it and try and do what is best for protecting our margins. And obviously, if the inflations kind of plateau off, then we will endeavor to drive the margins upwards.

Kartik Kohli: Got it. But just to phrase it a bit differently, are you in a position where you are taking pricing but still at a lag versus the other peers, which is helping you maintain a competitive price versus others and thus helping your business as well or is it like at this point you will broadly be coming at par with your peers at this point?

Rahul Sahai: Yes, I think we do not really look at in terms of coming at par. We try and take calls that are fairly independent and what is right for our business. What we need to, and obviously understand is that there are a lot of tenders and contracts that we work with, and the RM happens in, inflation happens almost in real time, but we have to execute the contracts that we have signed off through the quarter.

So, that element of understanding has to be there because it is not purely a retail type of business as far as domestic PowerGen is concerned. Having said that, like I have already said, we are committed to improving our margins.

Kartik Kohli: Got it. Just last question from my end, the second one. We have already talked about the kind of market that you are seeing in data center and you are interacting with all sorts of customers. Would you have in your mind, or at least with your interaction, do you have a sense of the pipeline that is developing for the country as a whole at this point? Is it, at some point, can we expect '28, '29, or in '28, '29, the country as a whole to add a gigawatt or so of such capacity? Is that what you are seeing?

Rahul Sahai: Look, there are a lot of-- we do obviously track this and have a fairly, I would say, reasonable understanding of what is going on. There are a lot of announcements made. We must remember that these are real assets and real infrastructure that is building out. Yes, we would like to believe that all the announcements are real and we will move into a gigawatt or multi-gigawatts as a lot of the announcements would like us to believe.

But we are also fairly prudent about it, and for us, the business only gets real when there is a qualified purchase order and stuff that would make it a tangible contract. We do watch this segment pretty closely.

Kartik Kohli: Got it. Thank you so much for taking the question. Have a nice day. Thank you.

Moderator: The next question comes from the line of Prathamesh Rane with PhillipCapital. Please go ahead. Prathamesh, please unmute your line in case if you are on mute.

Prathamesh Rane: Yes. Most of the questions are answered. Just a short question around the standalone cash flows have been impacted quite have been down year-over-year. Could you please throw any color on the same?

Sachin Kejriwal: Yes, our cash from operation has been positive for H1 also. Since we are building up the strategic inventory, that's why it got slightly impacted in H1. And even for the project execution, which is happening in this year and coming years, we have to build the inventory. Those are the temporary impact you are seeing on the cash side.

Prathamesh Rane: Okay. Thank you. Thank you, sir. Thank you so much. Happy Diwali.

Moderator: The next question comes from the line of Parikshit Kandpal with HDFC Securities. Please go ahead.

Parikshit Kandpal: Yes, hi team. Congratulations on a decent quarter in a challenging environment. My first question is for your PowerGen business across the nodes. If you can help us understand, are you seeing elongation in delivery timeline, delivery lead timelines? Are they pushing out by a few months? Just to understand the undercurrent from the demand side?

Rahul Sahai: Could you just ask that question another way? Because I didn't quite catch it.

Parikshit Kandpal: Just wanted to understand, if you were taking an order booking for a PowerGen node, say LHP, MHP, or HHP, which was like delivery of four, five months from now, have you seen over the last two, three quarters elongation in the delivery timelines given this huge, strong demand undercurrent? Are you seeing elongation in delivery timelines or booking of orders?

Rahul Sahai: Not particularly, because most people who are trying to build infrastructure generally want their units, like, the sooner that you can give it. We are not seeing openness to elongation of delivery lead times. Obviously, from our end, we try our best to get as much time as possible, but we are not really seeing that, no.

Parikshit Kandpal: Okay. Other question is this quarter the worst in terms of margins, or do you think if the commodities remain at the current levels, do you think that we can still see a worse quarter, maybe Q3, or maybe this could be a bottoming out quarter, and then if commodity stabilizes here, then Q3, Q4 onwards, we should start seeing a profit traction on the PowerGen business margins?

Rahul Sahai: If inflation held constant, then this could potentially be a bottoming out. We would see a directional improvement. That is with the core assumption that inflation held constant.

Parikshit Kandpal: Okay. Just the last question on the LHP and MHP side, if you can help us understand the demand drivers now. I mean, is real estate really picking up? Because what we are hearing on the ground is that now for the next few quarters, from H2 of FY27 onwards, we should start seeing strong real estate delivery. Are you seeing incremental demand coming in from the real estate projects now? Huge order build-out happening over the next few quarters in that segment particularly?

Rahul Sahai: Look, as far as we are seeing, we continue to see volume growth, and we look at demand and this market analysis at a volume level. We continue to see volume growth. Yes, maybe that's the best way I can answer in LHP and MHP.

Parikshit Kandpal: Especially on the real estate side, are you seeing, compared to last three to four quarters, are you seeing incremental inquiries or demand inquiries from the real estate segment? Are they ramping up their procurement of PowerGen, given that they are going to, across the industry, they're going to deliver huge volumes, which were sold three to four years back, now moving into OCM, the requirement for power backup for those projects?

Rahul Sahai: Actually, because we are seeing volume growth, which is a function of both inquiries as well as market share improvements, for us, it is very hard to isolate these into different compartments and say that market share held constant, are we seeing performance of real estate change? I don't think I have a great answer for that question.

Parikshit Kandpal: Okay. Sure. Thank you. Those were my questions, and wish you the best.

Rahul Sahai: Thank you.

Moderator: The next question comes from the line of Avadhoot Joshi with Trivantage Capital. Please go ahead.

Avadhoot Joshi: Hi, thank you for the opportunity. This is Avadhoot Joshi from Trivantage Capital. Just on the financial services, I am referring to the last slide of the presentation. If we look at the PBT numbers which are mentioned into it, there is a drop of say about 36% in profitability Q-on-Q, and Y-o-Y is much higher, 82%. Same is the situation if we look at H1 versus H1. If you can throw some light what is happening here, that would be helpful? Thank you.

Gauri Kirloskar: Samrat, are you there? Will you take the question?

Samrat Gupta: Avadhoot , this year has been a year of investment, which we had planned as part of our strategy to expand our retail distribution, and also the investment in technology for getting into used vehicle financing, both for commercial vehicles as well as for passenger vehicles, and for the small ticket LAP.

As we speak, we are operating out of seven states. The investments are going to materialize with paybacks coming over a period of 12-18 months. That is the reason why you see that this year, our profit before tax is lesser than last year or even the last quarter.

I think the investments are going to continue till 31st of December, and we should start seeing higher margin business, which is essentially the business which we are doing in granular secured retail, and the impact of a better ROA, while the book quality continues to be strong, starting quarter one of next year.

This is a year of investment, and this is a year of switching away from prime LAP business into small ticket LAP and used vehicle financing, which is high yielding, that requires an investment in distribution and technology.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we would take that as the last question for today. I would now like to hand the conference over to Mr. Sanjeev for the closing remarks.

Sanjeev Zarbade: Thank you, moderator. Let me take this opportunity to thank the management of Kirloskar Oil Engines for giving us this opportunity to host the call. Before I close, may I invite Ms. Gauri to share her final comments, and then we can close the call. Thank you.

Gauri Kirloskar: Thank you. I want to thank all of you for your support and your interest in the company, and wish all of you and your families a very Happy Diwali.

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