"Kirloskar Oil Engines Limited Q1 FY24 Earnings Conference Call"

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MODERATOR: **MR. DHIRENDRA TIWARI – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 Earnings Conference Call of Kirloskar Oil Engines Limited 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 the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference has been recorded.

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

Dhirendra Tiwari: Thank you very much. Good evening, ladies and gentlemen. On behalf of Antique Stock Broking, I welcome you to 1Q FY24 Post Results Conference Call of Kirloskar Oil Engines Limited.

We are pleased to have with us today Ms. Gauri Kirloskar - Managing Director; Mr. Anurag Bhagania - CFO and the Senior Management team of KOEL. We congratulate management team of KOEL for yet another strong performance during this quarter.

Now, I invite Ms. Gauri Kirloskar for initial remarks following which we will open the floor for Q&A session. Thank you and over to you, Ms. Gauri.

Gauri Kirloskar: Thank you very much. Good evening to all of you. This is Gauri Kirloskar - Managing Director of Kirloskar Oil Engines. Thank you for joining the call today. I have with me Anurag Bhagania – CFO, Rahul Sahai - B2B CEO, Aseem Srivastava - B2C CEO, Smita Raichurkar - Company Secretary and Amit Gupta - CFO at Arka.

I will start with an overall business update and then Anurag will update you about the financial performance.

We have had a strong quarter. Revenue from operations for the quarter is at Rs. 1,265 crores, sustaining a 10% sequential and 33% year-on-year expansion on the topline. This quarter has marked a milestone with the highest sales ever recorded for both B2B and B2C segments achieving the best Q1 performance for international as well as distribution and aftermarket. EBITDA at Rs. 153 crores was up by 54% quarter-on-quarter and 48% year-on-year. EBITDA margin at 12.1% improved 350 basis points quarter-on-quarter and 125 basis points year-on-year. This performance is supported by robust prebuying activity within the power generation sector. When we exclude the impact of prebuy volumes for comparison, the revenue exhibited a 20% annual increase and nearly reached the levels observed in Q4 FY22. I am confident that this figure remains commendable given the historical trend of Q1 traditionally being lower than the preceding Q4 of each year.

Our industrial business also incurred robust demand. The order book for our industrial division stands strong at the end of this fiscal primarily driven by substantial orders from the Indian Railways and Defense. The operational and business development aspects have seen significant activity during this quarter as well. I will give you an update on some of the key events.

First, the update on CPCB. There was a delay in the CPCB transition timeline two weeks before the earlier announced due date. This led to a lot of industry wide scrambling at the end of the quarter to first understand and then respond to the situation. We are confident that we are in a strong position as we are able to deal with the complexity of running both CPCB II and CPCB IV manufacturing line and managing the supply chain as well. We are also the first company in India to get our full range of 23 platforms of engines certified by ARAI for the CPCB IV emission standard.

At KOEL, we imagine a future in which internal combustion engines maintain their significance in providing power for various uses. The journey towards reducing carbon emissions and creating environmentally friendly engines will entail internal combustion engines utilizing cleaner and more ecofriendly fuels compared to conventional diesel engines or moving towards stricter emission norms within diesel.

With our in-house R&D efforts, we are designing our engines to be fuel agnostic. These platforms are not limited to single fuel source, but can operate efficiently and effectively on a diverse range of fuels. Here is a roundup of the recent developments and alternate fuel engines and our efforts to expand our product range this quarter. We now have a robust gas genset range as well as nodes that can run on ethanol as well as methanol. We also introduced Retrofit emission control devices for diesel generators ranging from 125 kVA to 1000 kVA.

Our RECD device stands out as an innovative technology capable of significantly reducing exhaust emissions that achieves an impressive 70% to 90% reduction in diesel particulate matter emissions and a minimum of a 70% reduction in other harmful pollutants like hydrocarbons and carbon monoxide. As state regulations become stricter, these RECD devices will be required to be installed on our already installed base of CPCB II gensets. We have also introduced Dual Fuel kits that we are distributing through our aftermarket channel.

From the product range point of view, I am very pleased to announce the OptiPrime series. This product is a twin engine power pack within the same canopy. The OptiPrime range will address applications that have variable power needs. It helps to reduce fuel consumption and carbon emission by almost 40%. This platform is available across our entire Power Gen range with both twin pack and hybrid options. We are excited with this launch as it also helps us mark our entry in the higher horsepower range with options up to 2000 kVA.

I will now talk about the standalone revenue breakup. The B2B segment with the topline of Rs. 1,095 crores booked 11% growth quarter-on-quarter and 36% year-on-year. Of the total B2B revenue, Power Gen revenue was Rs. 603 crores, industrial was Rs. 232 crores, distribution and aftermarket was Rs. 175 crores and international business was Rs. 86 crores. Our international business marked a growth of 29% year-on-year. The B2C segment with the topline of Rs. 160 crores registered 5% quarter-on-quarter and 15% year-on-year growth. Within B2C, the KOEL Water Management Solutions business recorded revenue of Rs. 134 crores and Farm Mechanization recorded revenue of Rs. 26 crores. Coming to the consolidated performance, the revenue for this quarter was Rs. 1,543 crores, registering 30% growth year-on-year. We booked profit before tax of Rs. 170 crores which was 54% higher year-on-year.

Regarding Arka, we are progressing as per the plan. The loan book for the quarter was at Rs. 3,656 crores. The net profit for the quarter was Rs. 16 crores, registering 4% growth year-on-year. In summary, it is a great start to the year for KOEL with a strong Q1 performance. We believe we are progressing well on our strategic growth path.

I will now take a stop and hand it over to Anurag.

Anurag Bhagania: Good evening, everyone. Thank you, Gauri for the updates on the business side:

I will now run you through the "Financial Performance" for standalone and consolidated businesses:

As you will see from the numbers, Q1 was a very strong quarter for KOEL, though these numbers were on the back of strong onetime prebuy volumes of CPCB. As I would like to reiterate that even without this prebuy, the topline was 20% higher year-on-year. This is now 4 quarters in a row that we have crossed Rs. 1,000 crores in revenue. During the quarter, we were also able to take price actions due to increased demand resulting in improved margin rate for the quarter.

Coming to the financial performance, I will start with the standalone performance first:

Review of Q1 FY23 "Financial Performance" standalone revenue from operations was Rs. 1,264.7 crores in the current quarter as against Rs. 953 crores for the same quarter last year, which is a 33% increase. EBITDA at Rs. 153 crores in the current quarter versus Rs. 103 crores for the same quarter last year, which is a 48% increase year-over-year. EBITDA margin stood at 12.1% for the current quarter versus 10.8% for the same quarter last year. Net profit was at Rs. 103.2 crores in the current quarter versus Rs. 64.6 crores for the same quarter last year registering a 60% increase on net profit.

We ended with a strong cash position as well. Net cash and cash equivalents at the end of the quarter stood at Rs. 300.4 crores versus Rs. 210.4 crores in the end of the previous quarter. Our working capital, which was trending adverse for the last few quarters, has started to show signs of softening. In this quarter, we were able to reduce our net working capital to about Rs. 99 crores versus Rs. 133 crores at the end of the previous quarter.

Let me now look at the consolidated financials, the performance for the quarter. Revenue from operations was Rs. 1,543.4 crores for the current quarter versus Rs. 1,191.4 crores for the same quarter last year, registering a 30% increase year-on-year. Net profit at Rs. 125.5 crores versus Rs. 82.1 crores for the same quarter last year generating a 53% increase year-on-year. Looking at the consolidated segment performance now, please note that the last year's numbers have been restated to align with the changes in the segment reporting.

The B2B segment revenue for the quarter was at Rs. 1,105 crores at a consolidated level, which is 35% growth year-on-year. The segment PBIT stood at Rs. 132.4 crores, reflecting approximately 75% increase year-on-year. Please note that the B2B performance has an effect of a prebuy for CPCB IV+ transition. If we take that effect out, the topline was Rs. 982.9 crores, which is still a 20% increase year-over-year. B2C segment revenue for the quarter was at Rs. 309.5 crore, which is a 4% growth year-on-year, but the highlight is the segment PBIT was at Rs. 17.4 crores up almost 15% year-on-year. Financial Services segment revenue for the quarter stood at Rs. 128.2 crores, reflecting a 65% increase year-over-year and segment PBIT at Rs. 21.5 crores, there is a 4% increase year-over-year.

We have provided additional details of our segment and business wise performance to the investor presentation that we uploaded on our website. If you read through them, the standalone sales has business unit breakdown and it is in line with the way we have structured internally. Exports are mostly managed in the International business group within the B2B segment. However, please note that exports also happen directly in other business units and are recorded in the respective business units. Therefore, when you look at the total standalone sales, we have also broken down the sales into domestic and exports to provide additional clarity. Similarly, our segment wise consolidated performance slides also show domestic and export breakup at each segment level.

To conclude, I would say this quarter we continue to deliver a very strong performance. Our outlook for the quarter is cautious as well as optimistic as the strong prebuy demand is not expected to continue. However, we remain positive about the growth outlook due to our ability to expand our product portfolio and offerings to serve the customer needs across new geographies. These elements are pivotal to our 2X-3Y strategy and as a team, we are continuously working towards realizing these market opportunities.

With that, I hand it back to you, Amit.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: My first question, a set of questions related to the core margin business, can you highlight what has been the order book built up in the railway segment for Vande Bharat train set and what is the pipeline for telecom orders which we should be expecting for the old CPCB II range of engines in the current fiscal year?

Rahul Sahai: This is Rahul. We won't give out those specific details in this call.

Renu Baid: No issues. Secondly, if you see in the last quarter, while the CPCB IV has also been postponed or extended for a year, many states have been served with so-called notices for CPCB II engines to Retrofit them, so can you share inputs in terms of how has been the demand for the RECD kit for the customer, are you seeing the transition or migration to CPCB IV engines from the existing installed base or they going in for the Retrofit kits, so how will the demand panning out on the installed base for this segment of the market?

Rahul Sahai: Renu, we are definitely seeing demand uptake for the emission control kits and especially when the gensets are relatively newer, we are seeing that demand kicking in. Otherwise based on the territory in India, for example, if you look at Delhi NCR, the notification that had come out, we are talking about pretty much closure of CPCB II gensets September onwards, unless and until they are already fitted with emission control devices and Dual Fuel kits. So, those specific territories will see demand uptake of CPCB IV+ much faster than others, but overall at a pan India level what we are expecting is a slow ramp down of CPCB II and a ramp up of CPCB IV+.

Renu Baid: If you look on the export segment within the domestic B2B, last 3 quarters, we have seen sequential decline picking as in right from 2Q of Rs. 133 crores to now some Rs. 100 crores, so how has been the demand in the export market been for our portfolio and are we seeing any headwinds from global slowdown and to what extent can this be offset by the new product introductions that we are targeting in the region?

Rahul Sahai: Renu, a lot of it is because we have been on allocation because we were trying to manage the prebuy and things like that, but it no way indicates the demand that was out there. So, we have an all-time high order board both in the international business as well as the industrial side as Gauri had mentioned.

Renu Baid: And last question if I can, for CPCB IV, it will still take about 12 more months, what is the road map to introduce hybrid solutions in the LHP segment because when we look at peers whether it is Cummins, Perkins and other related companies, there are many hybrid solutions, battery backup solutions being introduced for the LHP segment of the market, so what is our road map to begin Diesel solutions in this sector?

Rahul Sahai: So, Renu, I can't give something which is extremely forward-looking, but what I can definitely tell you is that Gauri has spoken about OptiPrime as well as OptiPrime hybrid series. These are both combination of different fuel types as well as different technologies including plug in hybrid along with gensets. So, I mean those products are already there, the protos are being built. We are also looking at commercializing it in the next 12 months and just so that you are aware, we also hold the patents for hybridization and gensets and battery and solar in India.

Moderator: Thank you. The next question is from the line of Khadija Mantri from Sharekhan. You may proceed.

Khadija Mantri: So, my question was regarding introduction of this OptiPrime range in HHP, so have we partnered with any company for the technological capabilities or we have done it on our own?

Rahul Sahai: This is Rahul. So, if you look at development of our gas portfolio, development of CPCB IV+ or it is coming out with new products or fuel agnostic platforms, we have done it all in-house. We have an extremely competent R&D department that works on each of these products and we are quite proud of that.

Gauri Kirloskar: And specifically, for the OptiPrime range that you mentioned, it has been developed in-house as well.

Khadija Mantri: Sir, now we do not have any gaps in our HHP range?

Rahul Sahai: So, the way I would look at it is we have new products coming in and because when we talk about HHP high horse power can actually go into really like much higher kVA nodes including 5000 and 6000, but what we are focusing on is to plug in the gaps up to 3000 kVA which is what we are fairly confident about that we should be able to do.

Khadija Mantri: And what would be your capacity utilization at this point of time?

Rahul Sahai: So, if you look at the last quarter, our plant capacity utilization and I am comparing this with basically the machining capacity, it is at about 73%.

Khadija Mantri: So, we are fully booked for the next one year as far as the prebuying is concerned for CPCB II? It has been extended by 6 months, I understand?

Rahul Sahai: So, that is correct. So, we have our CPCB II order board already with us.

Khadija Mantri: In the commentary you mentioned that the prebuying may not be as good as in Q1, so what you meant by that is it would taper off in the coming quarters?

Rahul Sahai: So, what we will see is that there will be some transition in this current quarter, but if you look at CPCB II, the demand will taper out eventually and especially as we move into the April to June quarter of next year, that is where the CPCB II product demand will clearly decline and what we are expecting is that September onwards the demand for CPCB IV+ products will start, will get on the rise. So, we are already seeing there is enough demand for CPCB IV+ even now.

We have an order board in place, but we are expecting the demand to start increasing after September.

Moderator: Thank you. The next question is from the line of Rushabh Shah from O3 Securities. Please go ahead.

Rushabh Shah: As we have seen your power generation business has done very well as compared to the previous quarter last year, so how do you see the future of gensets growing in the coming years and any steps you are taking to gain more market share in that segment?

Rahul Sahai: So, Rushabh, the way we look at it is the power generation business will continue to grow for us. There are different technologies that we are working with and there are different ranges of products that we are entering now. So, actually power generation is one of the businesses that we are extremely bullish upon. We have the appropriate technology in place. We also have the right kind of structure from an organization point of view in place. So, we are fairly bullish about the Power Gen business.

Rushabh Shah: And the next question is on the aftermarket side, is there a big opportunity opening across and what are we doing there?

Rahul Sahai: So, Rushabh, I would say that aftermarket and our distribution business basically has a significant opportunity for us, especially as you look at the complexity of product increasing, the kind of service solutions contracts that we can now penetrate with and offer value to our customers is significantly more than what it has ever been before. So, the increased electronics and the complexity obviously which creates value both from an environment standpoint as well as for the customer is a welcome change and we should see an uptake in the aftermarket business.

Rushabh Shah: And sir, could you tell me about the alternative fuel shifting to CMG, how will that impact our business?

Rahul Sahai: We have actually already developed our gas portfolio which will be largely very similar in terms of platform to what we have on the diesel side and we are gearing up for the CMG or the natural gas fuel as the infrastructure becomes available. So, we are quite bullish on that, especially when it comes to our power generation business, because that is where the biggest opportunity will be. Taking a step back, we are very clear that we are in the internal combustion and energy business. We will follow the fuel that becomes available. So, right now, natural gas is a great transition fuel and we have developed products for it which are CPCB IV+ compliant by the way and we will continue to do in line with the fuel type that becomes available.

Moderator: Thank you. The next question is from the line of Nikhil Oswal from Pinterest Capital. Please go ahead.

Nikhil Oswal: My only question is on number front, in the previous presentation, we have mentioned about clocking 2 times revenue of our previous year, so are we early on those lines, any guidance on that because the current numbers are depicting something that we might be early on that?

Gauri Kirloskar: So, Nikhil, just to clarify, I think you are talking about the strategy that we announced last year around August, which is 2X-3Y, so that commitment is to double our topline in 3 years.

Nikhil Oswal: Right, are we early on that?

Rahul Sahai: So, the way I would look at it Nikhil is that we are fully committed to that strategy and I wouldn't say early on the 2X, but what I would definitely say is we are phasing out our execution in line with the 2X-3Y.

Moderator: Thank you. The next question is from the line of Charanjit from DSP Mutual Fund. Please go ahead.

Charanjit: My first question is pertaining to the domestic Power Gen business, so in that segment, in terms of our market share currently, what level it is at and with multiple ranges which you are bringing in and with all these changes coming in, do we expect the significant change in the market share for us?

Rahul Sahai: By volume, we are the largest player and we typically have about 30% to 32% of the Power Gen market. Having said that, there are fluctuations that happen depending on specific orders that at times we intentionally don't want to take given there are profitability or there are other challenges. So, there are minor fluctuations, but we don't see too much of the change as far as market shares are concerned. We hover between 30% to 32% of the diesel genset market.

Charanjit: And from overall realization perspective, how has been the movement in the pricing in the market for CPCB IV compliant engines?

Rahul Sahai: So, because of the new notification that came out, especially if you look at the notification that came out on the 14th of June, there has been a slight delay in especially as far as the demand uptake is concerned, but if there are customers that want cleaner products and they are clearly seems to be a base of customers that want to adopt to CPCB IV+, we are seeing demand there and customers are willing to offer the appropriate realization for CPCB IV+ as well in line with the scope enhancement that we are offering.

Charanjit: So, there is a good bit of demand even for CPCB IV compliant engines?

Rahul Sahai: Yes, because what actually happening is there are every state slowly is coming out with their own, I would call from an economic standpoint, externalities where there are notifications coming out, for example, in Delhi NCR, we spoke a little earlier that they don't want to run CPCB II gensets without Retrofit emission control devices and Dual Fuel kits and September onwards, there is a clear cut mandate to either switch over to cleaner products or move to these emission control devices, so every state is coming out with these notifications. So, when customers evaluate, they see that CPCB IV+ is a cleaner product and it is a product that they will be able to run hassle free.

Charanjit: Sir, the other question is on the exports market, you talked about that we have a very high order book, so one is on the ground level in terms of the distribution reach, in terms of the service center reach, all those aspects, can you touch upon like what are the initiatives which you are doing because exports is also very critical part of this strategy of doubling our topline in 3 years?

Rahul Sahai: So, exports if you look at being able to sell gensets or even industrial products, industrial engines in export markets, you require an adequate service infrastructure for it. Now, there is a certain amount of business we can do without detailing all of that out to the end level, but now we are at a point where we are looking at each of these aspects and we are looking to develop not just our export sales channels, but also service operations in those regions. So, there are a few regions of particular interest. We are starting out with the GCC countries and the Middle East. So, that is the first region that we are looking to expand in at the moment and we are restructuring our approach accordingly as well. So, there are changes we are making and we will talk more about that in times to come.

Charanjit: Sir, just coming from a little longer perspective for domestic Power Gen itself, when we look at the power data, there is also increasing talk about a peak power deficit occurring in the market, so when that kind of a phenomenon kicks in, does it mean significantly higher growth than the normal growth what we would have seen in the past couple of years and deficits were low for the domestic Power Gen market?

Rahul Sahai: I would agree with that because peak power deficit is one indicator. What is equally important are the transmission and distribution losses that are occurring because combined is what they would generate, demand for genset because ultimately people buy gensets more like an insurance policy. They want uninterrupted power. So, when you look at some of these metrics along with the GDP growth, it gives you a good sense of where the market is headed.

Charanjit: Sir, if I can just one last question, in terms of the industrial business, you have also talked about that we have booked some strong orders from large orders in the Railways and the Defense segment, so one is if you can give brief understanding about the industrial business, how it is shaping up and how we expect it to shape up in the future and Railways and Defense, how large these opportunities could be for us going forward?

Rahul Sahai: We created the industrial business to focus on deep account management that is required and application understanding that is required to be able to successfully execute programs on the industrial side because very different from a Power Gen business. So, one of the segments that we created was Railways, so similarly apart from Railways there is construction, there is agri, there is mining, oil and gas, so there are defense and marine. So, there are whole bunch of different segments that have been created. Now in this specific case, when you look at Railways largely right now, the focus is on power cars, but having said that, we are also looking at different applications going forward. So, there is a product road map for that as well, but the order right now in conversation is for power cars. Similarly, we are experiencing encouraging signs as far as Defense and Marine segment is concerned. I think the way we have gone about setting up the structure and developing application competence within the segment structures is working for us.

Charanjit: But is there an opportunity size or a pipeline what we could highlight?

Rahul Sahai: If you look at it combined, it would be very difficult to answer that question because a lot of times the opportunities are very unique and different, but a good proxy to understand some of this is the kind of budget allocations that are happening by the government, especially in the applications we are talking about. So, for instance, if you look at railways, what kind of budget allocations or demand is Indian Railway is looking at in areas which require engines. So, I think that those would be good proxies.

Charanjit: And sir, on the pumps market, specifically from the La-Gajjar and the engine based pump sets which we classify in the B2C segment, how is that part of the market operating and what is the kind of growth outlook which you can have for the pumps as a segment?

Aseem Srivastava: Aseem here. So, if you see on the pump side, which includes KOEL electric and also LGM, last year we were working on basically increasing the profitability or bringing it to profits, so part of that is done last year and the same story continues. We have a very small market share in agree and domestic and we are confident with the strategy of deepening and widening. We will continue to grow in a very healthy way. Just to give you an example, KOEL electric and diesel in this quarter has grown by around 30%.

Moderator: Thank you. The next question is from the line of Manish Goyal from Thinqwise Wealth Managers. Please go ahead.

Manish Goyal: Three questions are related to on export, I believe that on the strategy to double revenues, we were ideally aiming that export should contribute 25% to 30% of the revenue, we did see a strong momentum last year in the early part of the year, but seems to be like stagnating now, so just want to know from our existing portfolio like Gensets, fire-fighting and other segments, what is the outlook going forward? And number 2, on like with delay in CPCB IV+ launch in domestic market, do we see challenge like we probably that was one of the strategy to enter into global markets where the emission levels are probably at par and now with delay in domestic launch, would it be challenging in terms of cost competitiveness to launch in the international market? And the third thing is that in last call we did mention that we probably will not do white labeling, so are we probably looking to sell directly with our own distribution network or maybe if you can just provide some insights on these three aspects?

Rahul Sahai: This is Rahul. So, first of all, I just want to kind of clear out there that we didn't say that we would do like white labeling and we are pretty clear that something that we won't be looking at, so just wanted to make sure that I clarify that. The other thing is that if you look even the last quarter that has gone by, it is our highest ever quarter 1 for our international business. Sequentially there are a lot of things that play out, but if you look at same time last year, there is significant growth on the international side. The other part of this is that every geography is very unique and with its own product requirements, emission requirements as well as service requirements. So, we are looking at all of that and what I can assure you is we executed our highest ever quarter 1 for exports and the focus on exports will be significantly higher going forward. What we have seen in the last quarter is because of the immense demand that we have seen from our domestic power generation business, we have been working on allocations. So, the revenues are in no way representative of the kind of demand that exists on the international side and we are actively working on it.

Manish Goyal: So, just to clarify, you said we will not do white labeling right?

Rahul Sahai: We will not do white labeling.

Manish Goyal: Across the product range like from lower HP to even HHP segment, right?

Rahul Sahai: Yes, we won't be doing white labeling.

Manish Goyal: And maybe if you can give insight on the CPCB IV launches in the international market because that was one growth area which we were looking for in the export market and maybe now with the delay in domestic, do you think that you will have enough cost leverage here or you will not have enough cost leverage because the production days will be much lower than what would you have anticipated earlier?

Rahul Sahai: So, if you look at the product which I was talking about different market, we cannot sell CPCB IV+ products directly in international markets and tweaks that need to be made and I will give an example of that. If you look at the US market, the US market is a 60 Hertz market and there are different kinds of emission, including Tier-3, Tier-4 final largely based on the EPA regulation. Now, what we do have is the capability to develop those products because CPCB IV+ is by and large equivalent to the EPA Tier-4 final norms in the US, but there are tweaks that need to be made. So, there aren't direct leverages there, but having said that, that is a critical part of our strategy. Similarly, if you look at the Middle East, Middle East is largely an un emissions market. So, what I can tell you is from a technology standpoint, we are at par with among the best in the world. We are looking at product strategies for each of the markets because the requirements are fairly unique.

Manish Goyal: And last one question on the financial services like sequentially we are seeing a decline in the AUM and even the debt level, so maybe is it something to do with seasonality or just maybe if you can clarify that?

Amit Gupta: I will take this. ma'am. So, Manish, you have rightly pointed out that during the quarter that is Q1 FY2024, the loan book has marginally gone down, which is roughly around 10% approximately. It is mainly because of a certain repayments what we have encountered in our corporate lending division only. Otherwise on the other business segments, which is power develop or financing and the retail segment which includes the MSME and all, the loan book has been increasing. So, as you only suggested that it is one of the seasonality kind of thing, we are generally in Q1 being in the financial services business, the loan book may be shrink, but we are expecting that to come back to its normal level and as per our business plan in the coming quarters as well.

Manish Goyal: So, what kind of growth for the entire year we are looking on disbursement or the AUM book side?

Anurag Bhagania: I am not sure whether I will be able to answer this question because it is like a forward-looking because on a year-on-year basis we are expecting a recent growth which will be aligning with in terms with the economy.

Moderator: Thank you. The next question is from the line of Chetan Truva from Chetan Investors. Please go ahead.

Chetan Dhruva: I just had one question with respect to the margin outlook, so this quarter we already done 17% is this EBITDA, I am talking about EBITDA margins at the consolidated level, is this sustainable for this year and do we expect to see any improvement the rest of the quarters and next year?

Gauri Kirloskar: So, first I want to clarify that it is 12.1% not 17%.

Chetan Dhruva: Consolidated level, I think you have done Rs. 264 crores?

Rahul Sahai: Are you looking at adding the segment PBITs and that is the number you are looking at?

Chetan Dhruva: The EBITDA, not the EBIT at consolidated level.

Rahul Sahai: It may not be appropriate to look at it that way because there is financial service business without interest, which is also there, we take out the interest portion of the financial services business. So, the best way to look at it is a few separate financial services out of the equation and look at the nonfinancial services business independently and I think a good measure right now to look at is about 12.1% is what is our EBITDA today.

Chetan Dhruva: And is this sustainable, sir?

Gauri Kirloskar: So, what our target is that over the 3 years that we do move into better double digit margins, we have made an improvement in the last year and we hope to sustain and improve that.

Chetan Dhruva: I was asking whether the financial services part of the business will also grow proportionately to the rest of the core business, to the main business actually because you would be probably funding the purchases right to the financial services.

Gauri Kirloskar: No, that is not how our financial services subsidiary works. So, they are pretty different businesses, the core business and the growth rate of the core business, B2B, B2C and financial services segments would be very different.

Chetan Dhruva: So, you are saying that there will be probably a specific subset of customers who will opt for the financial services aspect of your business?

Gauri Kirloskar: Yes, there are completely different set of customers in the financial services business that we lend to. We are in 3 segments in the financial services business, specifically corporate lending, real estate lending and SME and MSME lending and any business that has happened with any of our group companies or group company channels, distributors or dealers is less than 10%.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Amit Shah from Antique Stock Broking for closing comments.

Amit Shah: I would like to thank all the participants for taking time out and joining us on the call and would also like to thank the management for giving us the opportunity to post the call. I will hand over the call to the management for the closing remarks post which we can conclude the call. Over to you, ma'am.

Gauri Kirloskar: Thank you very much for your participation and time on a Friday evening. Thank you for your support and have a good weekend.

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