"Kirloskar Oil Engines Limited

. Q3 FY '23 Earnings Conference Call"

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MODERATOR: MR. AMIT SHAH – ANTIQUE STOCK BROKING

Moderator: Ladies and gentlemen, good day and welcome to the Kirloskar Oil Engines Limited Q3 FY '23 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 the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amit Shah. Thank you and over to you.

Amit Shah: Thank you, Mike. Good afternoon, everyone. I welcome you all to Q3 FY '23 Earnings Call of Kirloskar Oil Engines Limited. To discuss the result, from the management we have today; Ms. Gauri Kirloskar, Managing Director of the company; and Mr. Anurag Bhagania, 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 you, ma'am.

Gauri Kirloskar: Thank you, Amit. Good evening. This is Gauri Kirloskar, Managing Director of Kirloskar Oil Engines. Thank you all for joining the call today. Present with me on this call is; Anurag Bhagania, CFO of KOEL; Rahul Sahai, CEO of B2B; Aseem Srivastava, CEO of B2C; Smita Raichurkar, Company Secretary; and Amit Gupta, CFO of Arka Fincap.

I will start with an overall business update and Anurag will update you about the financial performance. Q3 has been a strong quarter for Kirloskar Oil Engines with a 20% increase in revenue for the quarter wherein year-to-date revenue increased by 28%. When it comes to the strong results of the quarter that went by, I cannot discount the strong demand that we saw in the market, but our teams did a stellar effort in converting the demand to numbers. It is always challenging to do so and I would not say that the supply chain constraints are fully resolved, but we managed our execution well, despite the constraints.

At a stand-alone level, we delivered a top line of INR 1,000 crores for the quarter, which is a 20% growth year-on-year and on a year-to-date level, we grew around 28% from INR 2,310 crores to INR 2,964 crores. Our focus on profitability continues. Our EBITDA rose to INR 108.9 crores from INR 50.7 crores that is an increase of 115%.

I am satisfied to see the reflection of our efforts on profitability showing in the numbers. It is a combination of our efforts around active management of raw material price fluctuations, product mix management and volume leverages.

At a consolidated level, at year-to-date our revenues from operations saw a 28% increase from INR 2,840 crores to INR 3,640 crores. For the same period, our year-on-year net profit grew from INR 103 crores to INR 252.7 crores that is a growth of 145%. Exports is an area that is a focus for the organization and I had called it out as a growth driver in our 2X-3Y strategy.

Exports grew around 35% year-on-year. This is encouraging for us and we will continue our focus here. Anurag will cover the financials in much more detail later. We have recently completed the acquisition of LGM and it is now a 100% subsidiary of Kirloskar Oil Engines. We are now focused on bringing in our leadership and management practices into this organization and I'm very excited about LGM.

We have a lot of work to do there. We are working on plant consolidation and creating a world-class manufacturing facility that has the capability to build world-class products both for domestic and global markets.

Aseem and his team have a clear strategy in place and I'm sure that our efforts both on the front end with deepening and widening and on the back end will yield results in the near future. Our LGM business recorded INR 128 crores of revenue for the quarter and INR 427 crores on a year-to-date basis. On a year-to-date basis, the revenue is up 4% year-on-year.

Continued efforts on pricing and better product mix management has resulted in significant improvements in margins and our EBITDA has turned positive 5% compared to a marginal loss in the same quarter of the prior year. In my conversations over the last couple of quarters, I have been talking of some of the work that we have been doing internally within the organization around our strategy, the new structures and leadership.

We have been continuing in this journey of transformation and the team is continuing to deliver strong results through this. One of the very first things that we did as part of this company-wide transformation effort is to look at our organization to see whether we are adequately structured to deliver the growth ambitions that we have. We have actively worked on this and have made some changes to our business structures and some of it has translated into changes in our segmental reporting.

Broadly speaking, Kirloskar Oil Engines has 3 main business verticals, the B2B businesses, which focus on internal combustion engines and related businesses, our B2C businesses, which focus on water management solutions and agri-related businesses and the financial services segment is the third.

We acknowledge the fundamental differences in these segments and felt that it is important to structure the organization accordingly and bring in leadership who are experts in these segments. With this thought, Rahul is leading the B2B segment, Aseem the B2C segment and the Arka team financial services is under Vimal Bhandari. Each one of these leaders are from their respective industries and they bring on to the table expertise and leadership for these segments. With these internal changes, it is important that we report our business as per these segments.

Looking at the performance of these segments. The B2B segment clocked a revenue of INR 873 crores marking 23% growth year-on-year. The B2C segment revenue was INR 251 crores marking almost the same level year-on-year. Financial services booked revenue of INR 97 crores, which is 80% up year-on-year. As far as the immediate future is concerned, CPCB4+

emission standards are kicking in from July of this year and that is where the whole organization is focused.

For us, this is a change that will touch our entire ecosystem both internally and externally from the product to manufacturing to selling to aftermarket, which calls for significant changes. We are fully geared up for this and our entire organization is fully focused on this and we are excited to be part of this change as we believe that it will play a significant role in the nation's efforts around solution and clean technology.

For the long term, we will continue with our journey of business transformation on the 2X-3Y strategy. We know our growth pillars and the key projects that we have to focus on. We are clear on the what, who and how and we will execute as per the plans that we have.

We do anticipate slowdown in export markets due to the muted growth signals in many international markets, but we know our focus areas in exports and we are confident of continued growth in exports. I am very bullish about the domestic market, I'm confident of the India growth story and we are proud to be part of that growth story by being a provider of energy solutions for customers across sectors.

Recently we launched a campaign that encapsulates who we are, which goes by the tagline, may the power always be with you. And I truly believe that it was, is and will be the way that Kirloskar Oil Engines plays familiar with our customers.

I would like to hand over the call to Anurag to take you through the financial performance in detail.

Anurag Bhagania: Good afternoon, everyone. Thank you, Gauri. With all the business updates done, I will now quickly run through the financial performance for this quarter. I would first like to reiterate that this quarter performance reflects our sustained execution capabilities to deliver on the market demand and maintain a positive momentum towards double-digit EBITDA.

This has been a good quarter for us. This is the second quarter in a row that we've delivered over INR 1,000 crores in top line for the operations. Now coming to the stand-alone sales performance. If you really go through the presentation that we've uploaded on our website, you will notice that we've now aligned our sales performance reporting in line with the B2B, B2C segment reporting that Gauri just explained. So now coming to the B2B segment. We witnessed 21% growth in terms of year-on-year sales. All the product lines inside B2B witnessed with double-digit growth year-on-year.

Our international business grew almost 35% year-on-year and power generation grew 23% year-on-year. Those were largely the major contributors in our B2B side. The B2C segment on a stand-alone basis registered 9% growth year-on-year. The water management system business was relatively flat for the quarter compared to last year, but our FMS business actually grew 50% year-on-year.

So that's the high level stand-alone revenue performance. Now looking at the performance details for our stand-alone results. Revenue from operations INR 1,000.1 crores for Q3 FY '23 versus INR 836.9 crores for Q3 FY '22, which is a 20% increase year-on-year. EBITDA stood at INR 108.9 crores for Q3 FY '23 versus INR 50.7 crores for Q3 FY '22, which is 115% increase year-on-year. EBITDA margins are double digit at 10.9% for Q3 FY '23 versus 6.1% for the same quarter prior year, which is approximately a 500 bps improvement.

Net profit stood at INR 68.2 crores versus INR 25.3 crores for the same quarter last year, which is 170% increase year-on-year. On a YTD basis, revenue from operations was INR 2,963.5 crores for the financial year '23 versus INR 2,309 crores for the financial year '22, which is a 28% increase year-on-year.

EBITDA stood at INR 327.8 crores YTD versus INR 166.2 crores YTD prior year, which is a 97% increase year-on-year. EBITDA margin was a healthy 11.1% for FY '23 YTD versus 7.2% in the prior period. This again a 400 bps improvement on a YTD basis. Net profit stood at INR 205 crores, for the current financial YTD basis versus INR 88.4 crores reflecting a jump of 132% year-on-year on a YTD basis. We continue to remain very healthy on net working capital. Our working capital cycles are about 19 days and our net cash position, which is our strength, is well over INR 200 crores.

Now coming to the consolidated performance for the quarter. Revenue from operations stood at INR 1,220.4 crores versus INR 1,017.8 crores, which is again a 20% increase year-on-year. Net profit at INR 88.2 crores versus INR 29.1 crores for the same quarter last year reflects a 203% increase year-on-year.

On a YTD basis, again revenue grew 28% consolidated level and profit grew 145% at a consolidated level. Let us now have a look at our segment performance and also reflecting that what Gauri earlier described. Our B2B segment with INR 873 crores revenue for the quarter grew at 23% with a segment margin of around 11%.

The B2C segment revenue for the quarter stood at INR 251 crores, which is almost the same level as last year, but with margin turning positive with about INR 4 crores contribution. The financial services business at INR 97 crores is almost 80% growth over last year. So to sum it up, I would like to reinforce our focus on the 2x-3Y strategy that we've been talking about. With this quarter's performance of 20% top line and about 11% EBITDA performance, I believe we are working to deliver to our strategic growth plan.

With this, I conclude on the financial updates. We will now open it up for the Q&As.

Moderator: We have the first question from the line of Mohit Kumar from DAM Capital.

Mohit Kumar: Sir, my first question is on the EBITDA performance in the quarter. Of course there's slightly softness in QoQ and I understand that...

Moderator: Sorry to interrupt you, Mr. Mohit Kumar. Your voice is not very clear. Request you to go off your speaker phone.

Mohit Kumar: And congratulations on a very good quarter. My first question on the EBITDA. EBITDA margins has some softness QoQ. I understand that the commodity prices have been declining. So what could explain the softness quarter-on-quarter? Is it the product mix or...?

Anurag Bhagania: Yes. So largely the EBITDA is slightly softer compared to previous quarter. We see about 20 bps to 30 bps versus the last quarter and this is because of primarily 2 reasons. One of course is the mix impact, the mix leading to some kind of raw material sales price marginally increasing. But it is also because of the increase in our employee salaries and welfare related cost, which you can see in the financials. We are building the organization for the 2X-3Y that we keep talking about and you will continue to see that cost increase as we go forward.

Rahul Sahai: This is Rahul. I just want to add to that on the mix that Anurag was talking about. If you look at our 3 levers that improve our profitability, the 3 levers are international growth, HHP and aftermarket. And if you look at the last quarter, there has been a substantial growth in each of these businesses and as a result, the positive mix that Anurag was talking about has had a big role to play here.

Mohit Kumar: Understood, sir. Secondly, how much of our revenue broadly has exposure to CPCB4 now and where are we in journey of developing that product? And what could be possible in price hike we need to take to protect our margins?

Rahul Sahai: So this is Rahul. Approximately 38% of our business has exposure to CPCB4+ and we are at the moment doing everything to ensure that we are in compliance with the norms as per the stated timelines and running the due diligence as far as our DVP&R cycles are concerned. Can you just repeat the second part of your question?

Mohit Kumar: Sir, my second question was how much do you think the hike needs to be taken on the product side to protect our margins?

Rahul Sahai: So at this moment I won't get into a specific number, but a general range of 25% to 40%-odd is something that can be expected. But we are looking at that and the multiple calculations that we are doing in the back end right now so I can't give a specific number at this moment.

Moderator: We have the next question from the line of Renjith Sivaram from Mahindra Mutual Fund.

Renjith Sivaram: Congrats on good set of numbers. So couple of things. When I look at it, the EBITDA margin has kind of softened compared to last quarter. So is there anything in terms of price reduction or is it largely to do with your overall mix?

Anurag Bhagania: So thank you for that question. I think I just answered that same question earlier. There's a marginal EBITDA reduction versus the previous quarter. There is no price reduction at all. It's just largely the small mix changes that you see quarter-on-quarter coupled with certain investments that we are making on people.

Renjith Sivaram: And sir, from one of your competitors, they have also mentioned that data center is seeing a huge demand. So do we also supply gensets for data center market or do we have any strategy to explore that? Just to get some because that's one of the largest growing market in your segment in the high horsepower.

Rahul Sahai: This is Rahul. So if you look at the datacenter segment, most of it is the demand is coming from 500 KVA upwards. Now wherever we have our products in those segments, we are seeing an uptake there and we do have thought processes on how to look at that segment, but it is something that I can't share at this moment. There is a lot of activity in the works. But rest assured, we're not ignoring that segment.

Renjith Sivaram: And sir, lastly the CPCB4+ norms are coming so have we tested and made our product ready to market in all our nodes or is there some percentage pending in terms of...

Moderator: Mr. Sivaram, your audio is not very clear.

Renjith Sivaram: Yes. So just regarding the CPCB4+, are we ready with the products which have been tested and ready to go to market in that or is some testing still pending?

Rahul Sahai: So what I can say is that we will be ready by the defined timelines and see, emission compliance are not new for our business. We have been doing it for a while.

Renjith Sivaram: Okay. And we hear from the competition that there can be a 30% north of price increases post that. Is that right?

Rahul Sahai: So what we anticipate is anything upwards of 25% to 40%-odd. But at this point I can't give a clear number, but there will certainly be an increase because of the scope change.

Moderator: We have the next question from the line of Mahesh Bendre from LIC Mutual Fund.

Mahesh Bendre: B2C business has remained flat on quarter-on-quarter basis and on a Y-o-Y basis so why this flatness?

Aseem Srivastava: This is Aseem here. So if you see, Q3 we're normally be very different for pump business and this time there was extended rain and also the GST change was there. Because of that, the pump business in Q3 has suffered. But in our case if you see, we are flat. Some of the other companies have actually gone down.

Mahesh Bendre: Okay. And sir, for B2C business, what is the mix of this? Is the entire thing is pump or there are some other products as well?

Aseem Srivastava: So as Gauri said, pump and then farm mechanization. So pump and allied products and farm mechanization. That is the mix we have.

Mahesh Bendre: So how much will be pump approximately?

Aseem Srivastava: So the specific details I can't give right now.

Mahesh Bendre: Sure. And sir, in terms of profitability, we have shown a profit at EBIT level. So do you think this momentum will continue going forward?

Aseem Srivastava: Yes. So all the initiatives that Gauri mentioned, we have taken those initiatives and that has resulted in this and the momentum will continue.

Moderator: We have the next question from the line of Darshil Jhaveri from Crown Capital.

Darshil Jhaveri: Sir, my question was regarding how do we see our FY '24 and '25 planning? Like we have been on a very good growth journey. So our strategy of 2x in 3 years in terms of revenue so we're targeting -- sorry, I'm a bit new to the company so I got a basic question. So the 2X-3Y strategy is that you want to double our revenue in 3 years and what sort of margins would we expect at that point of time?

Anurag Bhagania: So our strategy is very clearly laid out and has been repeated on multiple previous calls. Gauri talks about 2X-3Y strategy and doubling our double-digit EBITDA over the 3-year period, which is built upon driving significant improvement on customer delight and becoming an employer of choice.

That is the large vision that we've laid out and it is pretty clearly communicated over calls. If you see, our expectation is really that we will continue to outgrow the market and that is really what we can talk about right now. As you hear from us quarter-on-quarter, you will have to make those assessments based on the performance that we are delivering. Forward-looking statements is not something that we'd like to give.

Darshil Jhaveri: So another question regarding our B2C profitability. So what we are aimed for the -- because that is dragging down our profitability. So anything what we are targeting for B2C revenues?

Aseem Srivastava: So this is Aseem here again. If you see the performance of B2C in Q3 is better and from negative we have come positive and that momentum will continue like that.

Moderator: We have the next question from the line of Bharat Sheth from Quest Investment Advisors.

Bharat Sheth: Sir, my first question is on our engine side business. So currently we are operating at what level and what kind of room still we have?

Gauri Kirloskar: Can you explain your question better? Are you speaking about capacities or something else?

Bharat Sheth: Capacity, ma'am.

Rahul Sahai: So this is Rahul. See some capacity standpoint, we have a fairly elaborate manufacturing footprint at Kargil and we also have a plant at Nashik where we are looking to expand our capacities further. So at the moment, we don't see any capacity constraints as we go ahead into the next year.

Bharat Sheth: Sir, my question is what level we are operating? Because in say last year it was around, say, 55%. So currently we are operating at what level?

Rahul Sahai: See, we operate at about 60%-odd of our capacities. But I mean what I would say is that at a larger level, we don't see any capacity constraints as such.

Bharat Sheth: I'm not asking your capacity constraint. Still if we are operating at 60% and you are saying that we are further expanding so what reading can we get from that and what kind of operating leverage do we have in this engine business?

Rahul Sahai: To which I answered.

Bharat Sheth: No. You said 60% but we are expanding. So if still we are expanding at 60% to 65%, why we are expanding? My question is that.

Rahul Sahai: See, we are not expanding our capacity or manufacturing...

Bharat Sheth: Sorry. Okay. My mistake. I heard that we are expanding.

Gauri Kirloskar: So we are not expanding our manufacturing capacity. Perhaps you thought that when I said 2X-3Y. What we mean by that is that we will grow our top line. We don't need to...

Bharat Sheth: So Gauri, then second question is that what kind of operating leverage say if we...

Moderator: Sorry to interrupt. The line for the management has dropped. Please stay connected as we reconnect the management. Over to you, ma'am.

Gauri Kirloskar: So just in response to the last question, I just want to make clear that we are not expanding our manufacturing capacity. When we say 2X-3Y, it means that we are taking on the ambition of doubling our top line in 3 years and to achieve this, we do not see any significant capacity enhancements required.

Bharat Sheth: Gauri, great. So my question is related to that only. Since we are operating at still around 60%, 65% so once I mean growing top line and further utilization, what kind of operating leverage do we have? Operating leverage in the sense that what kind of civil or other expenses will remain at almost a little static level vis-a-vis the growth in sales will be much more than other expenses growth?

Anurag Bhagania: You're absolutely right, Bharat. I think because we are not going to be making any significant capacity enhancements, you can expect that there will be better return and better operating leverage. The growth will result into higher margin and that will flow into the bottom line. That will only marginally get impacted by additional investments that we will make on expanding our operations through our 2X-3Y strategy.

Bharat Sheth: Sir, is it possible to give some colour on the quantification? Is it possible?

Anurag Bhagania: I think it is early and it will not be possible to quantify that through the numbers. The focus right now is on driving top line growth as we talked about the 2X-3Y and improving our margins to double digits. That is the ambition that we are all driving towards.

Bharat Sheth: Okay. Now coming back to the CPCB4+ norms so where we understand that earlier when CPCB4 norm changed, it was more of a mechanization rather than electronics. But this CPCB4 norms require lot of electronics component. So how in this challenging situation where the electronic component availability is bit problematic so how do we plan to have a proper supply chain management so in case of demand, we should be able to meet the demand fully?

Rahul Sahai: This is Rahul. So from a supply chain standpoint, we don't foresee any major challenges because bulk of our supply chain is localized in India. So unlike a lot of our competition, our supply chain and our suppliers are largely based out of India and most of the volumes are actually tied down. So we don't foresee any major supply chain disruptions there.

Bharat Sheth: And last, we were taking lot of initiative to penetrate in U.S. market. So what stage we are and how we expect that US market growth -- not US, but developed markets, sorry, Europe and USA?

Rahul Sahai: So the U.S. market actually behaves very differently and the certifications and compliances are different from that of India. Having said that, we have got EPA certification for some of our products and we are on that path. So beyond that, I won't be able to comment here.

Bharat Sheth: And now coming back to the B2C business where we have some kind of ambition of reaching high single-digit margin. So in that trajectory, where we are currently and when do we see that slowly we will be able to reach that high single-digit EBIT margin?

Aseem Srivastava: So this is Aseem here again. So as I said earlier that from negative, we have come to positive and we are working on the levers like international business deepening, widening and also on the cost side. So I'm confident in next quarters we will see this momentum going up. Exact number I will not be able to give you right now.

Bharat Sheth: I'm asking you some kind of a timeline for high single-digit EBIT margin.

Aseem Srivastava: I will not be able to give you any timeline, but I can assure you that the momentum is good and you will see that in quarters to come.

Moderator: We have the next question from the line of Sagar Parekh from One-Up Financial.

Sagar Parekh: So my first question is on this NBFC subsidiary Arka. So I believe now we have completely fully invested I think INR 1,000 crores that we were supposed to put in, right, or is there any money pending to be put in?

Anurag Bhagania:` Amit, do you want to respond to that or should I?

Gauri Kirloskar: We have INR 36 crores pending out of the INR 1,000 crores commitment.

Sagar Parekh: Okay. So this INR 36 crores will be put up in this quarter 4?

Gauri Kirloskar: I cannot comment on that right now.

Sagar Parekh: Okay. No problem. So post this INR 1,000 crores so we were looking at some kind of monetization of this for Kirloskar Oil Engines shareholders. So is there like any timeline for when can we see some kind of monetization of this asset or do you think it's still some time away?

Gauri Kirloskar: So I can't commit to a timeline, but I will say that the commitment from KOEL stands firm at INR 1,000 crores. And beyond that to grow, Arka Fincap will follow the normal path that an NBFC would to raise capital.

Sagar Parekh: Right. But are we looking at any kind of demerger or something like that on the cards or there is no thought process at the moment for that?

Anurag Bhagania: Mr. Parekh, I think you know very well these are things that nobody will be able to explain on the call, right? I mean there is so much work to do before we say anything about it.

Sagar Parekh: Okay. Got it. My second question is on the export side. So on the export front on the quarter-on-quarter basis, we are seeing some cool-off on the exports. So if you can give some colour on which are the markets or which are the product segments which are seeing some bit of demand?

You mentioned in your initial remarks also that you are seeing some kind of pressure in terms of some products so if you can give some colour on that and how should we think of exports? So when we are talking about doubling in 3 years. we were anticipating a strong sort of traction in the exports where we are talking about INR 1,500 crores to INR 2,000 crores kind of level for exports. So I just wanted to get your sense on are we on track for that and if this global situation does not permit, then what is our strategy in exports?

Gauri Kirloskar: Okay. So I just want to clarify that what I meant in my opening statement is that we generally see a cool-down that is happening in global markets and that is what I mean by that is the likely recession that continues outside of India may go empty.

Having said that, for Kirloskar Oil Engines even though we have seen marginal softening in exports over the last quarter, we remain bullish and the reason we do is because our export revenue today as a percentage of our total revenues is still quite low and we see many white spaces where we will be able to play as our products become ready for advanced emission norm countries. So as you know the emission norm CPCB4, which is hitting us in India, also helps our products gear up and be ready for international markets. Of course there are certification processes that we will have to go through, but we remain bullish on exports.

Sagar Parekh: So once the CPCB4+ norms kick in in India, then can we assume like the take-off in exports to be significant from India to other countries or that certification time will still -- I mean the process still takes a lot of time and it's like a gradual process or how should we think about it?

Gauri Kirloskar: So I'm just going to allow Rahul to speak a little bit more on some of the strategy that we're looking at in the export markets.

Rahul Sahai: This is Rahul. So if you look at the international business, what we've been seeing is we're registering a strong double-digit growth over last year. That's number one. And quarter-on-quarter at times there are minor execution issues, but beyond that, we don't see any softening on the demand side. Now if you look at the way we are approaching exports, if you look at markets say in Middle East or Africa, all of those markets are largely un-emissionized.

So all of those markets are open and when Gauri was talking about white spaces, there are significant white spaces even there. Now if you look at some of the advanced markets like Europe and if you look at say the US, each of these markets has their own certification processes, many of which we are actively participating in and in due course we expect to get there as well. I can't give firm timelines, but what I can let you know is all of that is on our radar. We're extremely familiar with the volume in each of the markets.

Sagar Parekh: Sure. And my last question is on the cash. So we would be throwing a lot of cash going forward as well. And as you mentioned that we are not looking at any further capacity expansion so can we assume that now -- and since we do not have to put in any further incremental money in Arka except for that INR 36 crores, can we assume that the cash flows will be given out to the shareholders or how do we think of the free cash flows going forward?

Anurag Bhagania: I think we will not be able to give you too much forward-looking statements, in fact none of the forward-looking statements. But I think we expect cash to continue to increase like you have seen in the past and we will make continuous investments when it comes to technology. That is our focus.

Moderator: We have the next question from the line of Mahesh Bendre from LIC Mutual Fund.

Mahesh Bendre: Sir, this is a follow-up question. Export has contributed roughly 13% of our sales now so obviously we are scaling up the business. So are we making any -- I mean the margins are very similar to domestic or it has to reach some level from where we will make money?

Rahul Sahai: So this is Rahul. So if you look at our 2X-3Y, the exports is a big part of the entire top line and bottom line growth and over a period of time over the 2X-3Y, our ambition is to get to close about 30%-odd of contribution of exports and which is what is going to deliver higher profitability for KOEL as well.

Mahesh Bendre: Okay. Sure. And sir, what kind of capital expenditure plans we have for next 2 years?

Anurag Bhagania: So we've been generally spending in the range of INR 60 crores to INR 80 crores every year. In the next year we anticipate this number to be stable, in fact go a little higher because next year the cycle will slightly move towards a significant technology shift. But we will talk about the future capital investments in the future calls not at this moment.

Mahesh Bendre: So this capital expenditure will be only as a maintenance capex, right?

Anurag Bhagania: Will be largely on sustenance capex.

Moderator: We have the next question from the line of Renjith Sivaram from Mahindra Mutual Fund.

Renjith Sivaram: Just wanted to understand this export strategy because we were previously not there in various geography apart from Middle East and some places in Africa. So how do we like -- there will be some time lag between a distributor selecting our product, doing the trial runs and then getting us empaneled or there will be some process in that. So if you can explain like where are we in terms of these processes and apart from this Middle East and Africa, which are all the major countries that we are targeting in terms of this export from 13% to 30% which we had mentioned?

Rahul Sahai: See, if you look at our exports, historically we have focused on segments like fire pumps and on the industry engines. Now going forward with the emission compliances kicking in, what we're also looking at is taking our largest segment which is powgen, the entire portfolio of those products outside India as well.

So if you look at say the Middle East or Africa, we will continue to cater to those markets through un-emissionized products. And if you look at the advanced countries, we will have our products which for example CPCB4+ would roughly be equivalent to TR4 final and Euro Stage 3. So we will have a full range of products, our gensets available for those markets as well. And as we speak, we are undergoing some execution and approvals, etcetera. So if you look at some of the key markets that I outlined Europe, US, Africa, Middle East and Australia continues to be our focus areas.

Renjith Sivaram: So it will be like we will be supplying the engines and the dealer or the distributor over there will be actually assembling the alternator and packaging it as a genset or we will be supplying the genset as such? Because here in this market we only supply the engine. The other attributes of the diesel genset in terms of alternator can be taken care by the distributor. So how does it work in those countries?

Rahul Sahai: So what we will be doing is we will be taking each market and looking at efficient commercial transactions so that could range from G drives to supplying full-fledged gensets along with the canopy and bases. It depends on the markets we are targeting and what is the best commercial transaction we can execute.

Renjith Sivaram: Okay. And sir, for the CPCB4+ for the emission control, with which company do we have the technical understanding because Cummins has their own in-house emission control technologies? So for us, who are the technical partner in that emission control?

Rahul Sahai: So we have been -- so we actually have an in-house R&D and we have gone through every emission change with the support of our in-house R&D. So we continue to focus on that and we're pretty confident that we will be ready as per the timelines stated.

Renjith Sivaram: Because it's a complete shift to an electronic drive and you need that additional emission control catalytic converter. So that's the reason I'm again reiterating because there the supply chain shouldn't be impacted as the demand comes?

Rahul Sahai: I would like to assure you that there are similar transactions that are taken and Kirloskar Oil Engines has gone through on the off-highway side as well, which is the transition to BS IV and even in BS IV, there was the after treatment system and electronics that were there. So this is not new for us.

Moderator: We have the next question from the line of Naitik Mohata from Sequel Investments.

Naitik Mohata: And congratulations on good set of numbers. I have just a brief question. If you could throw some light on the order book that we have and some of the segments that we have these orders from being agri and power as well as in domestic and international?

Rahul Sahai: So this is Rahul. So on the B2B side I can't get into specifics, but we continue to have a pretty strong order board and demand from key segments like construction. And if you look at some of the other segments like health care, hospitals they continue to be pretty strong. So beyond that, I won't be able to get into specific numbers.

Moderator: We have the next question from the line of Rohan from Healing Touch. We have the next question from the line of Khadija Mantri from Sharekhan.

Khadija Mantri: Sir, I would like to know if there was a prebuying in this quarter and if you expect prebuying in Q4 also before implementation of CPCB4+ norms from July onwards?

Rahul Sahai: This is Rahul. We do expect prebuy to take place.

Khadija Mantri: So did you witness any prebuying in this quarter as well?

Rahul Sahai: Sorry, can you repeat the question?

Khadija Mantri: Did you have any prebuying in Q3 as well?

Rahul Sahai: So we are seeing increase in demand, I wouldn't completely attribute that to prebuys as yet.

Khadija Mantri: Okay, sir. And also what part of our product portfolio would be impacted by changes in the CPCB norms?

Rahul Sahai: So all the domestic power gen that we do below 800 kilowatts would be impacted by CPCB4+, that is close to about 35% to 40% of our business.

Moderator: That was the last question. I would now like to hand it over to the management for closing comments.

Gauri Kirloskar: This is Gauri. Thank you very much for your interest in Kirloskar Oil Engines and for joining the call today.

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.