“Kirloskar Oil Engines Limited Q3 FY-24 Earnings Conference Call”

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MANAGEMENT:	**MS. GAURI KIRLOSKAR – MANAGING DIRECTOR.**
	MR. RAHUL SAHAI – CEO (B2B)
	MR. ASEEM SRIVASTAV – CEO (B2C).
	MS. SMITA RAICHURKAR – COMPANY SECRETARY AND HEAD LEGAL
	MR. AMIT GUPTA – CFO (ARKA).
	MR. ANKUR GUPTA – CFO (B2B).
MODERATOR:	**MR. AMIT SHAH – ANTIQUE STOCK BROKING LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Kirloskar Oil Engines Limited Q3 FY24 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 the conference call. Please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being 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. Good evening, ladies and gentlemen. On behalf of Antique Stock Broking Limited, I welcome you to 3Q FY24 Post Results Conference Call of Kirloskar Oil Engines Limited.

We are pleased to have with us today Ms. Gauri Kirloskar – Managing Director, Mr. Rahul Sahai – CEO, B2B Business, Mr. Aseem Srivastav - CEO, our B2C Business. I welcome all the management of KOEL on the call.

Now, I invite Ms. Gauri Kirloskar to discuss the Results following which we will take Q&A. Over to you, Gauri Kirloskar. Thank you.

Gauri Kirloskar: Thank you very much. Good evening, everyone. This is Gauri Kirloskar, Managing Director of Kirloskar Oil Engines.

Thank you all for joining the call today. I have with me Rahul Sahai – our CEO, B2B; Aseem Srivastav – CEO, B2C; Ankur Gupta – CFO, B2B, Smita Raichurkar – Company Secretary and Amit Gupta – CFO of Arka.

I will first start with the "Business Update":

KOEL had a successful quarter achieving its highest ever Q3 sales, contributing to the highest year-to-date sales as well. The gross revenue to the third quarter reached Rs.1125 crores reflecting a 14% year-on-year increase. The year-to-date growth revenue totaled Rs.3428 crore, marking a 17% growth compared to the previous year. Overall demand was strong during the quarter based on the continued focus on infra spend in the Indian market. We continue to see mixed demand from CPCB II and CPCB IV+ Engines. As you all know the CPCB II engines are allowed to be sold till June of this year that is 2024, and we expect the mix demand to continue till then. Even though BS5 has been postponed from April 2024 to Jan 2025, we are ready with the BS5 engine platform as well.

This quarter also marks the most significant milestone for us. We have won the NPCIL order for supply of gensets for nuclear power plant. The order value is 768 crores for an order execution over 68 months for the Kudankulam project of NPCIL. This is the largest ever single order for

KOEL. Another development on international business is the Wildcat acquisition. Kirloskar America Corporation acquired a 51% stake of engines LPG LLC doing business as Wildcat Power Gen an Ohio Limited liability company and an approximate consideration of $357,000. Engines LPG LLC is engaged in the business of designing, manufacturing, selling and servicing generators powered by gas, diesel and other environmental, fuel and power solutions under the brand name of Wildcat Power Gen for all types of applications. This acquisition is a step towards business expansion and to enable market development at Power Gen applications for the North American market. We have also appointed a GOEM called My Span to serve and grow our business in the Middle East.

Now coming to B2B business updates:

In the power generation segment as I mentioned at the beginning, currently we are experiencing strong demand for our CPCB II gensets. So, we are fulfilling the orders which are a mix of CPCB II and CPCB IV+ genset. Additionally, there has been noteworthy expansion in the sales of gas gensets indicating a substantial surge in the adoption of power generation solutions fueled by gas. As of the year-to-date assessment, the sales figures have surpassed the 150-unit mark, forming a significant and positive trajectory in the sector's performance.

In the industrial segment, we have observed a strong demand emanating from the construction and railway sector. This serves as a confirmation of the ongoing narrative surrounding India's infrastructure development and the government's dedicated emphasis on capital investment in these specific sectors. In this quarter another endeavor involves a new product line consisting of remanufactured items that delivers performance comparable to new ones, but with a considerably reduced environmental impact. This not only results in financial savings for our customers but also contributes to a lower carbon footprint. Such efforts solidify our dedication to the circular economy emphasizing a cradle-to-cradle approach.

On the B2C side, we continue our stabilization efforts with the race strategy that is reach, agility, cost and engagement. The diesel and electric pumps have witnessed more than 25% growth during the quarter over last year. Our distributor base grew 22% over last year Q3. As a part of our widening efforts, we added 26 new channel partners during the quarter. The B2C segment has witnessed notable profitability enhancement as the segment profit for the year-to-date period reached 36 crores up 105% compared to 17.5 crores in the previous year.

I will now briefly update on the “Financial Performance” on a quarterly and a year-to-date basis:

These are the standalone numbers for Q3FY24 financial performance. Net sales at Rs.1125 crores for Q3 FY24 versus Rs.990 crores for Q3 FY23 a 14% increase year-on-year. EBITDA at Rs.133 crores for Q3 FY24 versus Rs.109 crores for Q3 FY23, which is a 21% increase year-on-year, EBITDA margin is at 11.7% for Q3 FY24 versus 10.9% for Q3 FY23. Net profit is at Rs.82 crores for Q3 FY24 versus 68 crores for Q3 FY23 a 21% increase year-on-year. On the year-to-date numbers net sales is at Rs.3428 crores for year-to-date of 24 versus Rs.2932 crores for year-to-date 23 a 17% increase year-on-year. EBITDA is at Rs.386 crores for year-to-date 24 versus Rs.328 crores for year-to-date 23 which is an 18% increase year-on-year. EBITDA margin is at 11.2% for year-to-date 24 versus 11.1% for year-to-date 23 and net profit is at Rs.244 crores for year-to-date Fiscal Year '24 versus Rs.205 crore for year-to-date 23 a 19% increase year-on-year.

I will now give an update on working capital. As we updated last time, the last quarter started with challenges on the supply front due to the continuation of CPCB II for another one year while CPCB IV+ was also introduced. As a result, we continue to see demand for both product lines which has resulted in a complex supply chain and manufacturing situation. To meet demand and customer requirements on delivery timeline we have made investments in stocking materials that has resulted in higher inventories which we expect to normalize over the next year as we go through this period of transition. Further, we have also seen an initial recovery of approximately 5 crores from the amount provided for against a customer receivables, we reaffirm that the full balance of the receivable amount was already provided for.

Now, I will take you through the business wise standalone revenue break up for the quarter and year-to-date performance:

The B2B business reported sales of 973 crores for the quarter which indicated growth of 13% year-on-year. The year-to-date sales were at 2972 crores which is a 17% growth year-on-year. Within B2B power generation reported sales of 426 crores for the quarter which is 5% year-on-year growth and 1388 crores for the year-to-date which is a 17% year-on-year growth. The industrial segment reported sales of 232 crores for the quarter, which is a 23% year-on-year growth and 699 crores for the year-to-date which is a 15% year-on-year growth. Distribution and aftermarket reported sales of 180 crores for the quarter, which is a 17% year-on-year growth and 539 crores for year-to-date which is 19% year-on-year growth.

National Business reported sales of 125 crores for the quarter, which is 21% year-on-year growth and 346 crores for year-to-date which is 19% year-on-year growth. B2C, a standalone business has reported sales of 152 crores for the quarter, which indicates growth of 16% year-on-year. The year-to-date sales were 456 crores for the quarter, which is 17% growth year-on-year. Within B2C, KOEL Water Management Solutions recorded a revenue of 133 crores for the quarter which is up by 32%. The farm mechanization business recorded a revenue of 19 crores for the quarter down by 37% for the quarter and 9% for the year due to seasonality leading to delay in subsidies from the states in which we operate.

Now, I will update you on a consolidated business:

LGM sales were flat but with significant improvement in year-to-date PBT from 11 crores to 25 crores. The new plant construction is going as per scheduled. LGM exports grew at 10%. Now, I will update you on the consolidated business. During the quarter Arka FinCap raised 300 crores through the public issue of secured rated listed redeemable non-convertible debentures with face value Rs.1000 each. The AUM excluding balance sheet items as on December 31st, 2023 was at Rs.4475 crores. The company is planning to expand their branch offices and also plans to expand the employee base for the growing business requirements. Overall, if you look at the consolidated results, revenue from operations is at Rs.1390 crores for Q3 FY24 versus 1220 crores for Q3 FY23, 14% increase year-on-year. Net profit is at 120 crores for Q3 FY24 versus 88 crores for Q3 FY23 a 36% increase year-on-year. For year-to-date, FY24 revenue is at 4238 crores for year-to-date FY24 versus 3640 crores for year-to-date FY23 which is 16% increase year-on-year and a net profit is at 324 crores for year-to-date Fiscal Year '24 versus 253 for year-to-date fiscal 23 a 28% increase year-on-year. Please note that this quarters numbers and an exceptional item of Rs.31 crore due to a provision made for investment in Arka fortunate investment fund due to regulatory changes announced in December 2023.

In summary, with a strong performance we are on our path for the 2x 3y journey, backed by strong demand in the domestic market. While we are gearing up for the upcoming technology changes in this industry we feel we stand strong together as a KOEL team. Our R&D team at KOEL is tirelessly working to establish a competitive edge in the alternate fuels, landscape for internal combustion engines and we will continue this path for a brighter future for all of our stakeholders. Thank you very much for listening and now we can take your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. And first question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: My first question is on your guidance of doubling our revenue in three years which you mentioned last year. So, FY23, you had shown a growth of 25%. This year so far, we are running short of that 25% growth rate which is required. But you still see that, you will meet your guidance in next say five quarters. So, first of all, can you just throw some light that what is giving you that confidence that you still meet the guidance in spite of a slightly lower performance so far?

Gauri Kirloskar: Thanks very much for your question. So, it's a great question and what I would like to say on it is that yes, you have seen that dip in the growth rate. But if you look at what has happened in the industry in the B2B industry versus, when we set out our target there was a delay in CPCB IV notification that has come about. So, we have seen, specific transition that has happened over the last two quarters, which will play out, and we still manage to achieve a certain growth rate, in spite of not having the kick-in of all the price uptake that we would expect on CPCB IV. So, the way I would answer your question is, I still see our performance is very strong, when we compare it to our ambition, and we still very much aspire to the ambition that we set out to achieve by next fiscal year.

Ankit Babel: So, the asking rate next year would be very high, maybe at 30, 35 whatever that percentage number is. So, just to reconfirm that, that kind of growth is possible next year, considering the volume and price increases to considering that?

Rahul Sahai: Hi, this is Rahul. So, what is happening is that, when you are in a transition year, it is not the product that you are trying to straddle, it's also the back end, and the readiness that you need to create. So, a lot of that work is actually done now. And as a result, we had budgeted for a few leaner months, relatively speaking, and those have happened in this financial year. So, we continue to aspire for the vision that we had set for ourselves the target, and we will continue to focus on that for next year.

Ankit Babel: Okay. And second is that though you have improved on your operating margin, but if we still see your margins compared to the industry leader, there is hell lot of difference. So, any ballpark idea, where do you see your margins may not be this year, next year but over the medium term say in the next two, three years, operating lever on the standalone business?

Rahul Sahai: So, if you look at margins, margins are also a function of the product profile. And if you have been noticing, we have been making some inroads on the high horsepower side as well, so we are executing some large inserts contracts and things like that. And all of those things help with the margins, along with enhancing our services business. So, those are all areas that we are focusing on. So, as we mature, we should gravitate pretty close to more mature players in this industry, I wouldn't think of it very differently.

Ankit Babel: No, so sorry to harp on this question again. But since the difference is too huge. So, just wanted to know, what could be the range, can you be in the 15% range or what?

Rahul Sahai: No, so I can't really answer that on this call. But we can definitely aspire for, like a stronger margin profile for sure.

Ankit Babel: Okay. And any views and is your Arka business now self-sustainable in nature. Since you have already said that, you won't invest more than 1000 crores in that business. So, is it now self-sufficient?

Gauri Kirloskar: Yes, that's right, we are not going to invest more than 1000 crores and business is now on its way to raising external capital as well, and we feel that it is strongly positioned for that.

Ankit Babel: So, can we now think of demerging this business?

Gauri Kirloskar: No, that's not how quickly we would make our decision. And it's something that will play out over time, there's are many factors at play for us to make that kind of decision.

Ankit Babel: Any one particular reason which is preventing you to demerge, just wanted to understand since it is self-sufficient, there won't be any infusion from Kirloskar Oil. Then what is the reason of running it in this company, just wanted to understand that.

Gauri Kirloskar: So, I am not going to be able to answer your question, basically the way that we look at feeding businesses and growing businesses is inefficient and in a way that is right for the business. So, we will go forward and take the appropriate steps in well thought out way it's what you are suggesting is jumping many steps ahead.

Moderator: Thank you. The next question is from the line of Aditya Agrawal from Ambit Global Private Capital. Please go ahead.

Aditya Agrawal: So, couple of questions from my end. So, the first one is, during the quarter what was the contribution from CPCB genset?

Rahul Sahai: So, contributions in terms of volume, I would say roughly about say 15% to 20% were CPCB IV and the rest of it was CPCB II. We expect the CPCB IV volumes to continue to increase as we move closer towards the June of this year.

Aditya Agrawal: Okay. And just to understand sir, what is the margin profile if you compare CPCB II versus CPCB IV+. So, how much is the difference in terms of the absolute margin?

Rahul Sahai: So, it will be somewhat similar. But there are variations from node-to-node, I don't think I can give that to you on this call.

Aditya Agrawal: Okay, that’s fair. Second is regarding the OptiPrime which we introduced recently, so has been the order book shaping up?

Rahul Sahai: So, we have received a fairly positive response to that, we have a relatively strong order board, when it comes to OptiPrime, there has been distraction from a lot of our customers, especially if you look at infrastructure and real estate, the customers have been pretty positive. So, we are hoping to carry that forward in the next financial year. We are executing OptiPrime orders across the range in the financial year. So, we are already doing that.

Aditya Agrawal: Okay. And just a last question, our exports in the quarter was roughly about 13%. So, where do you see this number shaping up let say in two years, three years down the line?

Rahul Sahai: So, our ambition is to have exports be about 30% so far business. So, we will make strategic moves in line with that, as you saw our MD talking, so we made investment in the US, along with appointment of GOEM in the Middle East in this quarter. So, we are evaluating all options, and we want to grow the international business. However, we do it strategically and purposefully.

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

Teena Virmani: My question is related to power gen segment of the company during the current quarter. The growth was a little weaker than you would have seen in let's say, the industrial distribution and even exports. So, is it more to do with the demand or is there anything specific that would have impacted the sales of power gen segment during the quarter?

Rahul Sahai: So, we continue to see a strong demand. Right now, we are straddling between CPCB II and CPCB IV. So, it's a lot of rigor around execution that we are focusing on. I don't see the demand softening or any issue on that end. We have a pretty strong pending order board, which we will carry forward in this coming quarter.

Teena Virmani: Okay. So, this quarter ideally the demand would have, like you mentioned that this would have been more dominated by CPCB II?

Rahul Sahai: Yes, that's correct.

Teena Virmani: Okay. So, in the coming quarters again it will be more or less demand coming in from CPCB II so, can we expect a little better growth in the power gen segment, or it may be because that challenge will continue to remain in quarter four also between CPCB II and CPCB IV. So, how do you see this traction in the power gen segment particularly when the demand drivers are much stronger in the industry?

Rahul Sahai: Yes, so what has happened is, as we approach the deadline, the contribution of CPCB IV is going to increase. So, what was 50% in the last quarter will, this will keep increasing, because even our GOEM would want to mitigate risk of stocking CPCB II gensets with them, because the guideline says that there is, the deadline for both GOEMs and the Indian manufacturers are co-terminating. The deadline is co-terminating in June. So, it will be four is going to slowly come in the forefront in any case, in quarter four, we may still see a lot of CPCB II, but a higher contribution of CPCB IV+ than what we did in the last quarter.

Teena Virmani: Okay, got it. And my second question is related to the gross margin of the company during current quarter, we have seen an improvement on a year-on-year basis for KOEL for 3Q. So, what led to this increase, is it more driven by CPCB IV+, or is it more driven by HHP contribution into your product mix or maybe export or distribution?

Rahul Sahai: So, if you look at what's been happening, we have been executing more orders in the medium and high-power range, that's number one. Number two, if you look at our distribution and aftermarket business, we are seeing a higher penetration there. Also, if you look historically, our contribution from international business is higher in the last quarter than it has been same time last year or in the previous quarter. So, these are the three main profitability drivers.

Teena Virmani: Okay. And on your B2C division, if I can ask just the last question on your B2C division, is the B2C division at similar profitability and B2B division or like what kind of sales would be required for this division to see a better absorption of cost?

Rahul Sahai: So, if you see in the results, B2C margins are already there. On the console if you see it is already there.

Moderator: Thank you. The next question is from the line of Rahul Jain from JM Financial. Please go ahead.

Rahul Jain: I have two questions. So, my first one will be on the B2C business wherein we saw a 4.8% EBIT margin during the quarter. So, how sustainable is the profitability for this B2C business, and can you help me with the trajectory in which the improvement can come in the next one and a half, two years?

Aseem Srivastav: Hi, this is Aseem here. So, if you see last year we came up with a strategy of raise where we were focusing on margin improvement in LGM and also growth in WMS. Now, these two things we have achieved where the WMS business is growing by around 25% to 30%. And LGM is now very stable with margins of around 5% to 6%. So, whatever strategy we adopted, this is sustainable, and there will be some improvement in margins going forward and in LGM, also, around 10% to 15% growth is possible going forward.

Rahul Jain: So, sir in the medium to long run can we expect that 8% to 10% margin levels in this business, which will contribute to your 2x 2y strategy, if you can just give?

Aseem Srivastav: So, if you see our pump and small engine business already there at 8% to 9% margins.

Rahul Jain: So, farm mechanization is where we are getting pinched?

Aseem Srivastav: Yes, that's right.

Rahul Jain: Okay. My second question will be on Arka. So, Arka saw fantastic growth in AUM quarter-on-quarter as well as the revenue was up significantly on a year-on-year basis. However, the profits were significantly down so just needed to know the reason for the lower profitability during this quarter.

Gauri Kirloskar: Yes, that's due to the exceptional item, let Amit are you there, you explain it please.

Amit Gupta: So, Rahul you got the right point. If you remember there is a RBI circular which has come in the month of November, which has given a mandate for any NBFC to provide for the investment they have made in any AIF and if both the entity have a common downstream investments So, Arka has made an investment to the extent of a 30.8 crore in Arka Credit Fund 1, in that sub sponsor kind of a category, because they have a one common investments. That is why because of the regulatory provision, we have to make a provision of 30.8 crore in Q3 itself in December 2023. Had this provision not been there, our tax for the quarter would have been approximately 24 crore. Currently, I am sure the reported number which is coming in the media is roughly around four crore or at Arka independent level, had this provision not been there it would have been at 24 crore.

Rahul Jain: 24 crore in total right?

Amit Gupta: For the quarter itself.

Rahul Jain: So, the profitability can come back in Q4 onwards, there is a….

Amit Gupta: For the quarter definitely, it will come back.

Gauri Kirloskar: It's an exceptional one-time item.

Amit Gupta: Yes, one-time item as the fund life will get over the amount will be coming back. The provision will get reversed.

Moderator: Thank you. The next question is from the line of Sagar Parekh from One Up Financial. Please go ahead.

Sagar Parekh: So, first question is on this price difference between CPCB II and CPCB IV+, what would be the price difference on average, I understand from different nodes it will be different, but broadly can you give us a range?

Rahul Sahai: 40%.

Sagar Parekh: So, when you mentioned that this 15% of our volumes were at a higher price. Still our Power Gen overall growth was only 5%. So, I'm not just able to reconcile that revenue number then so, maybe if you can throw some light on that?

Rahul Sahai: You are asking for the quarter?

Sagar Parekh: Yes, for the quarter. So, the Power Gen revenue growth is 5% for the quarter, and you are saying 15% of the volumes would have been at a higher price 40%?

Rahul Sahai: Yes. So, actually, if you look at the last year same quarter, we had an unusually high and we were executing some one-time orders on Power Gen, which is why actually same time last year was higher than our normal, which is why the growth looks muted. But if you look at on a year-to-date basis, you will see that the Power Gen performance is much stronger.

Sagar Parekh: Got it. And for quarter four, do we expect any kind of pre buy for CPCB II or are you already seeing pre buy already doing in the market?

Rahul Sahai: Yes, so we are expecting some amount of pre buy, although people are going to be slightly careful. So, it won't be to the same extent as what we saw earlier. But we are expecting some pre buy to kick in here.

Sagar Parekh: If I remember correctly, last year this year, current year, the pre buy was about 100 crores if I'm not wrong, so for this quarter the amount will be slightly lower than that?

Rahul Sahai: Yes, it should be lower than that, yes.

Sagar Parekh: Okay. And if I heard you correctly, you are still sticking to your guidance of 6500 crores top line for FY25 from standalone business?

Rahul Sahai: Yes, so we still continue to drive that as a target.

Moderator: Thank you. The next question is from the line of Prolin an Individual Investor. Please go ahead.

Prolin: I just want to understand that for the nine months FY24 have we lost any market share in Power Gen segment. And how do you define market share is it in the product segment where we are present or do we seen the entire market share and where I am coming from this is, the market leader for nine months has grown at a much more faster pace than what we have done in some time. And, when we had defined with this 2x 3y strategy, we wanted to gain market share in the high horsepower kind of segment as well, where our market share was low. So, from that point of view, and assuming that there is a 40% price hike in CPCB IV genset, in terms of volume have we lost some market share, because that's what our whatever publically data that is available, that's what it points to. So, is that a correct assessment and if not, why is this number a bit on the lower side versus the market leader?

Rahul Sahai: So, if you look at our market share on power generation side excluding Telecom, because one of the things that we have consciously taken a call if something is not profitable, we are not going to get into it beyond a point. So, we want to enhance the value for the organization. But if you look at our market share, excluding Telecom, our market share have remained somewhat similar. Of course, if you look at node-wise market shares, we have gained some market share at the higher end a little few percentage points. And at the lowest end, we have lost a little bit of market share because of our own, it was like an intentional call. But if you look at without Telecom, the market shares are somewhat similar they are not very different.

Prolin: Okay. So, x of telecom, in lower notes you are saying market share is similar, is that a fair assessment?

Rahul Sahai: The market shares haven't changed too much, by in telecom market and that's a different kind of market.

Prolin: Sure. And in our higher nodes, where was our market share, let's say a year back before we embarked on this 2x, 3y journey. And can you tell us a little bit about your aspirational market share that you want to be in three to five years' time, and what are some of the white spaces where we have not exactly white spaces, but what are some of the right to win segments use case that we are targeting, where we think that we can gain over some of the existing players?

Rahul Sahai: Sure. So, if you look at the power generation market, overall, what you will see is that, the market is broadly categorized. So, you look at the 750 kVA upwards 250 to 750 kVA and below to 250 kVA. Now, if I look at 750, kVA upwards, our market share was single digit at say 750 and 1010 kVA, we have grown that to double digits, we had practically no presence beyond that. Now, we have a few single digit percentage points in, now especially when you compare that to the revenue and the margins, there is a significant gain there as a result of, node by node, focus and entry into the higher nodes. So, just to give you a sense of how the market is, on the lowest end, like I said if there are segments that are not making money or are not profitable, then we at times have taken conscious calls. And as a result, we may have seen some intentional drop in market share there. Overall, however, we had a very similar market share, there is not much change.

Prolin: Sure. So, Rahul just to, double click a little bit on that if you can talk about certain segments that you are targeting, certain use case that you are targeting to gain this market share. And if you can probably help us understand what can be that aspirational market share in higher nodes in three to five years time that will be helpful.

Rahul Sahai: So, one of the segments is infrastructure. And we are seeing a lot of growth in that segment. We aspire for 20% market share in most of the segments that we operate in at least 20% and we see a significant opportunity there. So, since you asked for a segment, infra segment is fast growing, it contributes to a large chunk of our portfolio, and we would aspire for 20% market share across the node.

Prolin: Okay, and anything on data centers, when you said that in higher kVA we have fought some single digit market share. So, if I talk about this data centers, is it fair that there also we have bought some certain single digit market share?

Rahul Sahai: Correct. So, data centers are also some of our customers that we are executing our orders with. Most of our orders are in the 500 to 1010 kVA range. Slowly, we are also getting inquiries and leads and we are in advance stages talking about the 2000 kVA and upward so those conversations are also happening.

Prolin: Sure. And from this press release of this JV with Man Energy France SAS, is it any way related to the NPCIL order that we won, and if not, what is this regarding if you can share a little bit more texture on this JV?

Rahul Sahai: Sure, so it's not a joint venture. It's a transfer of technology for specific purposes, but at this point, I won't be able to comment on whether it's related to NPCIL or not.

Prolin: Okay. But in future, do you think that this technology transfer will help us target a larger market in the domestic side of it or export side of it, and how did we decide on build versus buy or technology agreement that also if you can help us?

Rahul Sahai: What I can say is that it's not a strategic larger population. So, it's for a very specialized purpose and in case there is a larger population we are evaluating or that we sign off, we will update you.

Prolin: Fair point. And Gauri my one question to you would be that, as we have already, you have reiterated that we are online for our 2x 3y strategy, but when we look at the margins, we have already reached double digits. So, that is something which we have already achieved, maybe six quarters before what we had targeted for. So, is there a need to probably set some higher targets when it comes to margin in terms of mid-teens, low-teens right, anything on that?

Gauri Kirloskar: We will aspire to improve from where we are, thanks for acknowledging that we have made that improvement, as Rahul also mentioned in response to an earlier question, and Aseem as well, there is still scope for us to improve. So, we hope to show you that improvement in the coming quarters.

Prolin: That's great Gauri, thanks a lot. Thanks a lot, what I was wanting to think was, in putting that out on the presentation, so that everybody on the firm is also aligned. That was my objective.

Gauri Kirloskar: We have already felt double digit. So, what exactly are you looking for?

Prolin: No, we have already reached that double digit. So, I was just thinking whether in terms of further maybe mid-teens to low teens kind of number that you want to put it?

Gauri Kirloskar: So, you know where the competition is at, and where strategically we are looking at making improvements, whether we talked about the high horsepower space, or service penetration, or the export side. So, we do see that, there is scope for us to improve margins but, I'm not going to talk about a very specific number, because we will know where that ends up.

Prolin: Thanks a lot for that. Lastly, on this 5 crores that we recovered, if you can just remind us as to what was that total that we had already provided for and what are the kind of mechanism that we are using to recovery the remaining, I understand that we have provided for that. But what was the total amount that was provided for then, do we expect recovery to continue happening down the line as well or this was 5 crore was the debt that came from that account.

Gauri Kirloskar: Sure, happy to answer that. So, if you remember over the course of last year, the last maybe three quarters, we have fully provided for this amount which was a total of approximately 47 crores. So, with this 5 crores recovery, we now stand at an outstanding of 41 and the team is continuing to make full efforts to recover the outstanding amount.

Moderator: Thank you. The next question is from the line of Amit Shah from Antique Stock Broking. Please go ahead.

Amit Shah: My question is more on the export side of the business. So, on exports, that is one of the key pillars to achieve our 2x 3y guidance. We have already raised 150 crores kind of a quarterly run rate on the export side of the business. I just wanted to know that, when we listen to your from competitors commentary, the guidance for a very muted kind of export market and the demand has been slowing down globally. So, in that background, what is our thought process with regards to exports because we were targeting somewhere around about 30% kind of a contribution coming up from exports. So, we have already established our GOEM in the Middle East and US. But how do you look at exports growing in the current challenging environment, if you can, please help us understand that?

Rahul Sahai: Thanks for asking that question, this is Rahul. So, I understand that a lot of the industry players are seeing muted International Business volumes. However, if you look at from our business lens, the opportunity to grow is still very much there, because our base is a relatively smaller. So, once the basic strategy moves are in place, and we are geared for growth, which is what we are currently trying to establish. So, one example is the GOEMs that we have set up both in the US as well as in the Middle East now. So, once we have the structure for manufacturing and the distribution setup, I do see that over a period of time we should be able to get to a much higher level of contribution. And yes, we aspire for 30% export contribution at a mature stage.

Amit Shah: Secondly, on the FMS side of the business, so that business is witnessing a sharp sort of decline in a quarter when you look at the nine months number, the numbers look pretty muted. So, what is the outlook there slightly from a longer-term point of view, both on the WMS and FMS side, what is the kind of contribution that we are expecting from that particular business and what kind of margins do we anticipate this particular business to contribute if you can just help us understand?

Gauri Kirloskar: Sure, a good question. I will answer first on FMS, your question on FMS and then I will let Aseem answer on the WMS side. So, as a leadership team, we are re-looking at our overall business strategy in the farm mechanization business. The performance of this last quarter and overall has not been in line with our expectations and I feel there is a need to relook at the strategy that we have there. The agriculture segment is of strategic importance to us. And we want to ensure that we reach our customers with the right products, and at the right price in all of the marketplaces where the customer wants us to be. We also know that this market is evolving it's highly fragmented, and there is many organized as well as unorganized players. The market dynamics are different state-to-state depending on crops, depending on seasonality and also different subsidies. So, we haven't actually been very successful in managing it well. So, there is a need to reevaluate our strategy here. The good news is it's a small business for us when we compare it to our overall portfolio. So, changing costs will be relatively easy for us and Aseem and his team will be working on this and I hope to see that improvement in the coming months, I will let him respond on the WMS question.

Aseem Srivastav: Thanks Gauri. So, WMS actually has two components, one is the pump business and second is the small engine business. So, if you see, this year both these businesses have a very strong growth of 25% and 30%. So, we have definitely captured market share, and there is a significant improvement in margin also, both small engine pump business have a margin EBITDA of around 8% to 9%. Now, we are confident that this year we will be able to maintain this growth and margin for the WMS business, which is 90% of the B2C business.

Amit Shah: And if you can just highlight which are the end markets which is driving the growth, both for the pumps and is it more on the residential side, agri side of the business and even on the engine side.

Aseem Srivastav: So, if you see on the pump side we focus into the domestic pumps and the agri pumps. And both these side we had 25% to 30% growth. On small engine, the construction sector is one and the OEM market is the second where we are seeing significant growth, but see the market is not growing at that rate, market is growing at 4% to 5%. We are growing at this rate because of our strategy.

Amit Shah: And any market share data points that you would like to share, what is our current market share at this point of time and incrementally what we aspire to?

Aseem Srivastav: So, see this is very, very fragmented segment and no one player has more than 10% to 12% market share. Our current market share is around 5% in pump, in small AUM our market share is 30%.

Amit Shah: My last question would be on Arka. We have done a provision of 31 odd crore in this particular quarter because of the change in the RBI regulations. I just wanted to reconfirm that, have we done the 100% provisions, or can we expect some more provision to materialize even in Q4?

Gauri Kirloskar: No, it's 100% provision.

Moderator: Thank you. That was the last question, I would now like to hand the conference over to Mr. Amit Shah from Antique Stock Broking for closing comments.

Amit Shah: So, thank you everyone for joining us on the call. I would also like to thank the management for giving us the opportunity to host the call. I will request Ms. Gauri Kirloskar, to make the closing remarks. Post which we can close the call. Over to you ma'am.

Gauri Kirloskar: Thank you. Thank you very much Amit to you and your team for hosting the call and thank you very much for all of the investors who have joined and showed interest in the company. Thank you.

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