“Kirloskar Oil Engines Limited Q4 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Kirloskar Oil Engines Limited Q4 FY2022 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 the 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. Amit Shah from Antique Stock Broking. Thank you and over to you Sir!

Amit Shah: Thank you Lizaan. Good afternoon everyone. On behalf of Antique Stock Broking, I welcome you all to Q4 FY2022 earnings call of Kirloskar Oil Engines Limited. From the management, we have Ms. Gauri Kirloskar - Managing Director of the company, we have Mr. Pawan Kumar Agarwal – CFO of the company and we have the other dignitaries of the management team. I would now hand over the call to Ms. Gauri Kirloskar for the opening remarks post which we can open the floor for the Q&A session. Thank you and over to you!

Gauri Kirloskar: Thank you Amit. Good evening to all of you. This is Gauri Kirloskar. I would like to thank you all for joining the call today. As you must have seen yesterday's announcement I am talking to you today as Managing Director of Kirloskar Oil Engines Limited, present with me on this call are Mr. Pawan Agarwal, the Chief Financial Officer of the company and our Company Secretary Ms. Smita Raichurkar. We also have our business unit heads including the team from ARKA Fincap and our Head of Strategy is here with us. I hope you are all doing well and keeping safe in these heat waves with all cities reaching record temperatures.

Today we are here to talk about the Q4 and FY2022 performance. I would like to begin with giving you an update of the overall business environment and the demand outlook as we see it for FY2023. After that Pawan would speak about the financial performance and a detailed update, post that we will be open for the Q&A session, but before we begin a customary disclaimer.

We wish to start by qualifying that during the call we may make some forward looking statements, these statements are considering the business environment we see as of today and therefore there could be risks and uncertainties that could cause actual results to vary materially from what we are discussing on the call and we would not always be able to update on these forward looking statements.

FY2022 had its own ups and downs as we started with the COVID second wave and now the ongoing geopolitical tensions on the Russia-Ukraine war background. Despite these pressures FY2023 looks good on the demand side with the government's infrastructure spending at an all time high and the pickup in industrial capex.

Coming to Q4 performance it has been a steady quarter of KOEL. We have delivered on both topline and profitability target. With this quarterly performance we witnessed a healthy topline growth of 22% for a consolidated business for the full year; however, profitability was under stress mainly due to the rapid increase in commodity inflation especially in the third quarter of this year.

On the operations side, the BSIV transition has been smooth. During last year over 3600 of our BSIV compliant engines have clocked more than 100000 hours in the field. We also take pride in mentioning that last year we provided a record set of gen sets to hospitals and healthcare centers during the nation's fight against COVID. We launched two platform engines into the market, low horsepower compact engine platform called R550 and high horsepower platform of 1250 KVA and 1500 KVA ranges. We also announced our entry into the electric motors space with the launch of 3-phase AC induction motors. The efforts on developing alternate fuel engines have reached its fruition and you would witness the unveiling of some of these products in the near future.

So, if I look at the overall macro-environment now from the overall Indian market point of view- we believe, at KOEL with a strong manufacturing base in India and a largely indigenized supply chain, we are at the right place and the right time. Despite the geopolitical uncertainties and higher commodity prices the structural story of India remains intact. Government's focus on infrastructure development and at the additional trust for Make in India presents us with a great opportunity in this spacey. We are in one of the few markets globally, which has a strong growth outlook.

Coming to the sector we cater to in the post-COVID scenario is accelerating economic activities; the power demand is on an ever growing trend. We see a good opportunity in this environment for the power generation business. This expected growth in the volumes needs to be handled tactfully on the background of higher commodity prices. As we had indicated in the previous call we are taking a series of planned price hikes to keep our margins intact. We have been taking these price hikes in a phased manner so as of now the topline growth you see in this quarter is coming from a mix of volume growth and price hike both. Pawan in his remarks will dwell upon the numbers in detail.

As I mentioned earlier, the government's investment in infrastructure is at an all time high. The push for manufacturing via PLI scheme has given a good boost to private sector capex as well. This presents a very healthy demand scenario for our products. We are seeing good traction and order inquiries as well as an order book for the government schemes like Jal Jeevan Mission, affordable housing, KUSUM scheme which is the solar pumps, etc.

An additional positive scenario for us on the macro side is the China plus one strategy. As I mentioned earlier we are at a very sweet spot in these changing geopolitical environments. With manufacturing, engineering and innovation being our core competencies, we also know the Indian market like the back of our hand. Our brand is a household name in India. We have the experience of creating fit for market product, distribution and service channels and that makes us the right partner for global players who may want to enter the Indian market for manufacturing or selling. This will help us to gear up for any international opportunities that may open up in our sector.

So to sum it up the overall outlook looks buoyant given the pickup in government spending, infrastructure investment, higher construction activity and an overall positive trend in the industrial capex. However, we believe higher inflationary environment will put pressure on the cost, which we will have to watch carefully, but with scaling up newly introduced businesses we should be able to take that impact. We expect good growth in business segments like electric pumps, fire pumps, and the traditional genset and engine business in this positive demand environment. Now for the further deep dive into financial performance and analysis I will hand it over to Pawan.

Pawan Agarwal: Thanks Gauri. Good evening, everyone. With the positive demand outlook shared by Gauri, let me now give you all a few of the fourth quarter and the year gone by.

While the press release in the earnings call presentation, which has been released, has the performance details nonetheless I would like to go through the key parameters on financial and business performance and then we can get into a Q&A session.

On a standalone basis the total revenue from operations for the fourth quarter stood close to 990 Crores against 914.6 Crores in Q4 of the previous financial year, an increase of 8%. As you can see the major cost increase around the raw material side, raw material cost to sales percentage has increased by 3.7% from Q4 last year to Q4 this year. This has impacted the EBITDA margins. Consequently, the EBITDA was at 102.6 Crores in Q4. EBITDA margins at 10.4%, was lower by 2.7% against Q4 last year. However, EBITDA margins were higher by 4.3% against the trailing quarter. There is an exceptional item pertaining to profit arising on sale of investment in ARKA Fincap Limited of around 52.7 Crores during the quarter, so the profit before tax is at Rs.142 Crores and net profit is at 120 Crores for the quarter.

Now looking at the full year’s standalone performance, revenue from operations grew by 22% to Rs.3300 Crores; however, EBITDA is at a level of about 269 Crores due to lower gross profit and higher other expenses compared to last year. As you can see the major impact is of commodity price increase wherein the raw material cost to sales percentage has increased by 4.7% year-on-year basis.

The current year’s other expenses in the P&L also includes a onetime expenditure incurred by the company towards the Kirloskar brand refresh program, which we undertook to strengthen our market position. Consequently, profit before exceptional items and tax for the year was approximately 12% lower at 210 Crores. Net profit for the year stood at 208 Crores witnessing 23% growth over last year. This has the effect of exceptional items that I had mentioned earlier.

Most of the business decisions have demonstrated healthy double-digit sales growth in the current year. Total standalone sales grew by 23% for FY2022 over last year. This was contributed by mainly power generation, industrial business and institutional project solution businesses.

Moving on to the segmental performance as you must have noticed from last quarter we have been giving updates of our segmental performance. This keeps the consistency in line with our financial segmental reporting. There was feedback from one of the analysts regarding the segmental reporting. Going forward we would like to make the financial presentation more and more investor friendly for a clear understanding of the business segment.

Coming to the engine segment in power generation business all major subsegments have registered healthy double digit growth year-on-year and quarter-on-quarter. Export sales have registered a growth of 119% year-on-year. We have strengthened presence in mobility segments with installations in metros and major airports. On the industrial business side, sales registered a decline of 15% year-on-year and growth of 2% quarter-on-quarter. We have completed fire-fighting pumps at range expansion and supplied more than 300 Kirloskar fire-fighting pumpsets in the markets. On the customer support business sales were nearly at the same level year-on-year whilst quarter-on-quarter it registered a 12% growth. We continue to maintain healthy customer delight index score of more than 90. Institutional project and solution business saw an impressive growth of 106% year-on-year and 292% quarter-on-quarter.

Now looking at the electric pump segment at La-Gajjar Machineries Private Limited business has registered sales nearly at the same level quarter-on-quarter and a decline of 11% year-on-year. EBITDA margin for the quarter continue to remain under pressure due to steep increase in commodity prices. As you know LGM had formed a wholly owned subsidiary by the name Optiqua Pipes and Electricals Private Limited in February 2021 to tap the market opportunities in the allied segments and adjacencies in the water management solution vertical. Further as we had mentioned in the last call Optiqua entered into a joint venture with ESVA Pumps India Private Limited by obtaining 49% equity stake in the company on October 4, 2021.

The next segment is financial services division, our total investment in ARKA Financial Holdings Private Limited as on March 31, 2022 stood at 837 Crores. ARKA Financial Holding in turn invested Rs.834 Crores in equity share capital of ARKAFincap Limited including the shares, which were transferred from KOEL. Other performance details have been updated in the earnings presentation.

As far as consolidated performance of KOEL group is concerned here are the key points. Net sales at Rs.3978.7 Crores for FY2022 versus Rs.3254.8 Crores for FY2021, which is 22% increase year-on-year. Net profit of Rs.170.9 Crores for FY2022 versus Rs.197.4 Crores for FY2021 that is 13% decline year-on-year.

The Board of Directors has recommended a final dividend of Rs.2.5 per share, which is 125% of the face value of Rs.2 each. With this the full year dividend declared would be at Rs.4 per share, which represents 200% of the face value.

As far as the outlook is concerned as Gauri mentioned in her remarks, we see a positive demand outlook in the economy across our business segments, so the revenue growth outlook looks promising; however, on the profitability side we need to keep a close watch on the inflationary pressure on overall cost. We have been taking the sales price rises and you would see that effect in coming quarters too. On the newly introduced businesses we see great opportunity to scale up and our teams are geared up for the upskilling of these new businesses.

As we were done with the numbers update, I would like to update you all on KOEL's sustainability journey. Last quarter we had given an update on KOEL's sustainability structure. You would hear more from us on this space in coming quarters. Our focus on sustainable business practices and emphasis on socially inclusive business remains intact. We will enhance the reporting standards and adapt to new practices in line with regulatory requirements. To conclude I would like to mention that overall, we remain enthusiastic and optimistic about the market opportunity. With this summary we may now commend the question and answer. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: Very good evening. The first question is pertaining to the price hikes that have been rolled out in the last one year which you mentioned has been taken in a staggered manner, if you can highlight cumulative what would have been the price hikes across each segment that is power gen, agri, industrial, if you can broadly highlight the overall quantum?

Pawan Agarwal: Sandeep, it would be difficult to give you overall ballpark number, but through the year including Q4 in various businesses the price rise decisions have been taken at different point of time and at different rate across different categories, SKUs, etc. Electric pump for example in WMS we took price increase in April, July, November, then January and then again in April 2022 we have taken at various rates, similarly in other businesses also we have taken, but there was a little bit of wait and watch in Q2, Q3 where we did not take so much of price increase; however, in Q4 I think across all businesses we have taken price increase of different order and that has helped us improve the raw material cost to sales ratio in Q4.

Sandeep Tulsiyan: The reason I am asking is the power gen of course we have done a very strong growth, but other than power gen most of the segments if you look at it on a year-on-year basis there is largely a single digit growth in agri as well as industry, so want to understand how much should we look at it from a pricing growth perspective and how much would have been the volume growth where there is no headroom to cover because first quarter was impacted?

Pawan Agarwal: Arvind, would you like to give some colour on power generation business and probably I can ask Milind to talk about water management.

Arvind Chhabra: Thank you so much. Good afternoon Sandeep. In the power business in the early FY2022 Q1, Q2 it was like lag because the commodities again shooted up, but Q4 as like in the previous quarter we have been taking the lead so we took the lead in terms of a price increase and if I have to give some reference it is high double digit, which was the overall consolidated price increase over the years which was almost in line with the commodity inflation as far as the power gen is concerned and similar was the case for the industrial.

Milind: As far as KOEL Electric is concerned there was a volume growth of around 14% as compared to last year and a total price hike what we took was little behind the market related price increases, but overall we were roughly around 5% behind the market prices, but volume growth we were at 14%.

Sandeep Tulsiyan: Understood, second question is regarding the breakup which you usually share, for the power gen if you can highlight how much of the sales do we see and how much was the other low KVA gensets what we sell and what would have been the trade broadly spread like and similarly in the industrial segment what would have been the ballpark breakup between tractors and off highways?

Pawan Agarwal: Thanks Sandeep. On the DV side we sold 1000 numbers between the DV series and the SL series all together 1000 units and for the full year the equivalent number was 3269.

Sandeep Tulsiyan: In terms of rupees?

Pawan Agarwal: Roughly about 400 Crores plus, 409 to be precise for the full year and for the quarter it is about 131 Crores.

Sandeep Tulsiyan: Got it and the breakup between the credit products and for the industrial payment, you can share, please?

Pawan Agarwal: In the industrial as you know we have tractor segment, so in tractor we did in Q4 31 Crores of sales within industrial and other than tractor, which is construction equipment, fire-fighting pump, etc., all put together is 146 Crores in Q4, full year number tractor is 156 Crores and other than tractor, which includes fire-fighting pumps is 481 Crores.

Sandeep Tulsiyan: Understood. Sir, next question is pertaining to the new products, if you can now give us some sense in Optiqua now what all products would form the entire addressable market because we have a tie-up for pumps and we have some electricals and other things, so what should be the addressable market and which all product lines we will be present in, are these electric motors what we have launched part of the Optiqua portfolio or we would be sold through the KOEL franchise and on the other products like transformers is one product we had spoken about in some of the earlier calls, which we will be selling to the railways if you can give an update on that front also, please?

Pawan Agarwal: Sandeep thanks. There are three, four questions rolled into one question, so let me attempt to answer these one by one. So the easier one motor business is sitting in KOEL, Kirloskar Motors, which is under the Kirloskar brand we are selling motors, OWC organic waste composter and the Optiqua range of products that I will request Rahul to talk more about it and also he will touch upon transformer side.

Rahul Prabhudesai: Hi, Sandeep, this is Rahul here. I will start from your first question which was on the wire, you asked about the Optiqua portfolio and you also asked about the market size, so the Optiqua portfolio is divided broadly into two segments, one is the wire and the flat cables, the electrical part and the other one which is about 1000 Crores odd size, and the other one is the pipes, the pipes is a huge market, but here in Optiqua we are more focused on the column pipes. As Pawan mentioned earlier, the logic of getting Optiqua under our hold was to get into allied business, so basically whatever is coming along with submersible pump that is what we are concerned with although so that means that the larger PVC pipes, the huge market that 30000 Crores odd that is not really the focus so that was on Optiqua.

The second question was on electric motors and in electric motors this business is sitting pretty much in KOEL and we have just launched the range that we have launched is up to 37 kilowatts and gradually through the next two, three quarters we are going to expand this range up to higher frame sizes and we are also going to expand this range for higher efficiency motors, we are also appointing lot of dealers across all four zones, so this businesses is in scale up mode. This was launched in the end of March, but going by last month's experience we see a good feedback from market, so we really anticipate a good year for electric motors.

Sandeep Tulsiyan: Market size for this?

Rahul Prabhudesai: So, we are currently into low voltage motors AC, which would be roughly around 4000 Crores to 5000 Crores and the last question was on transformer, currently we are reassessing the whole transformer marketing especially in railways given whatever has happened in the COVID year and that means currently it is on hold, so we will come back to you maybe sometime later on what is that.

Pawan Agarwal: Organic waste composter, as you know, is a concept selling and we have been showcasing this product to our channel partners and we are getting encouraging response; however, in terms of numbers this is going to take some time to get some meaningful sales numbers from this product, but overall outlook looks positive, maybe Arvind may like to throw more light on OWC product.

Arvind Chhabra: Pawan thanks. You already said the most, yes, this product is now well accepted by the channel though as of now it is more compliance driven and we are building into the concept that how it is beneficial and why customer should take it and the response is very, very positive, so maybe in the coming quarters you will see more and more numbers flowing in from this product also, but from the overall stability and acceptability of product it is building up very fast.

Sandeep Tulsiyan: Understood. Thank you and just squeeze in one last on the management we had seen a lot of exits during the past quarter, have all those positions be filled in, in the current quarter or there are hirings, which are yet to be done and just wanted to understand the role is now split the Managing Director and CEO role what we read in the announcement yesterday so both these positions will have the executive role that is what I wanted to get a clarity on?

Pawan Agarwal: Thanks, Sandeep for this question. This is Pawan. You would have seen in yesterday's announcement, Mr. Aseem has been brought in, so he is going to look after the B2C part which essentially right now is water management solutions business plus the farm mechanization business, so he is going to lead that business and as we had mentioned in the earlier call the customer support business Abhaya Naik who had left to pursue his own venture so that position was filled at that point itself by promoting his direct report and this process was going on for a long time, so that position has also been filled, and otherwise no other open position in the company which needed any immediate action.

Sandeep Tulsiyan: B2C will be taken care by Mr. Aseem and what about the other B2B?

Pawan Agarwal: B2B we are in the process, we will see going forward, right now Arvind is there and other business heads are there, so they are taking care of the business, but we will evaluate the situation and will take a call on the Head of the B2B business and we will be guided by the decision of the Board on this matter.

Sandeep Tulsiyan: Understood. Thank you so much for taking all the questions.

Moderator: Thank you. The next question is from the line of Ashwani Sharma from ICICI Securities. Please go ahead.

Ashwani Sharma: Good afternoon and thanks for the opportunity. Sir, my first question is on the employee cost, if I look at the standalone numbers there is a decrease of around 14% on the Y-o-Y basis, but when I look at the consolidated number there is an increase of around 2% how do we explain this Sir?

Pawan Agarwal: On the standalone number regarding employee related cost last year was 199 Crores and this year is roughly Rs.207 Crores, so a couple of things, this year obviously there was an annual pay raise which was given to employees, also the ESOP cost has come into play this year, which is roughly about 2.5 Crores for the full year, so these two things have played out for this increase. As far as consolidated is concerned the last year number was 257 Crores at a group level and this year number is about Rs.285 Crores to Rs.286 Crores, which again includes the normal increase and

ESOP cost at ARKA as well as at KOEL level, so there are no other extraordinary items sitting over there.

Ashwani Sharma: What will be the numbers going ahead let us talk about quarterly run rate in the standalone business?

Pawan Agarwal: Come again please.

Ashwani Sharma: Going ahead how do you guide this number, so let us say in Q4 our standalone employee cost was 49 Crores, this will be the number going ahead?

Pawan Agarwal: There was some reversal in Q4 this year; overall it would be around Rs.55 Crores to Rs.56 Crores per quarter on a steady state basis.

Ashwani Sharma: My second question is on the power gen business, if we could talk about different sectors, how is the demand over there, which are the sectors where you see the strong demand coming?

Pawan Agarwal: Sure, I will ask Arvind to answer this question. Arvind, over to you!

Arvind Chhabra: Hi, Ashwani, good afternoon. See, as Gauri also mentioned in her opening remarks that from Q4 onwards the demand has been pretty positive from all the sectors since the infra projects are back on track being the residential or the commercial side and the health sector as well as the other manufacturing setup most of the new projects have already started getting unlocked. So overall the demand has been coming in from all the key sectors when it comes to the power generation and which was further fueled by off late in the last two, three months we have started hearing a lot about the power crisis situation because the economy was coming back on track so it is somehow we will keep it.

Ashwani Sharma: Thanks for the answer.

Moderator: Thank you. The next question is from the line of Ameet Kalyanpur from East India Securities. Please go ahead.

Ameet Kalyanpur: Thanks for the opportunity. Just taking it further on this power gen what are the volumes that we are seeing in Q1 and what is the magnitude of the incremental demand on account of this power generation?

Pawan Agarwal: Arvind, can you answer this one.

Arvind Chhabra: Yes. Hi Ameet, good afternoon. See on account of this particular power crisis situation the demand in the lower end segment is slightly higher, I can say that will be the early double digit wherein from the higher end prospective these power crisis will not make much of the difference in terms of the demand, only growth is coming more on account of the project getting unlocked because those are anyway the planned purchase from a larger gestation period perspective, but the smaller end has a sudden spike wherein the customer was looking at the early supply.

Ameet Kalyanpur: Thanks a lot.

Moderator: Thank you. The next question is from the line of Munzal Shah from EDHA. Please go ahead.

Munzal Shah: Good evening. Sir just wanted some forward looking in the next three to four years, where do you see this ARKA from here on, actually Kirloskar has invested close to around 800 Crores odd I think historically it was mentioned that we will be investing somewhere close to 1000 Crores odd, and beyond that where will the capital come from and what book size are you looking maybe three to four years down the line and with this interest rate scenario moving up and there is some slow down, are we seeing any change in the business plans or is there a concern about bad debts or something of that sort? Thanks a lot.

Pawan Agarwal: Thanks Munzal for this question. Actually there are quite a few questions bundled into one question and I will answer a few of them and then I will hand over to Amit Gupta who is the finance head for ARKAFincap. As far as the capital commitment to ARKA group is concerned, the Board of KOEL has taken a call and decided to invest up to 1000 Crores and that remains intact and of course as you would have noticed that there has been additional subsidiaries which have been formed within our financial services businesses i.e. ARKA Financial Holdings Private Limited and ARKA Management Services and there has been a shareholding restructuring done whereby now KOEL is holding stake in ARKA group through ARKA Financial Holdings Private Limited. Secondly, the financial performance of the subsidiary continues to be robust;, quarter-on-quarter we are on the growth trajectory both on the topline and bottomline and the loan book looks very promising, there are no major issues in terms of NPAs, etc., on our offerings in the market, Amit can give you more colour on the operational part of ARKA's performance, so I will hand it over to Amit.

Amit Gupta: Thanks PawanJi. So, just to highlight the financial performance of ARKA Fincap Limited for FY2022, just two updates on the PAT number that we have doubled the PAT in this financial year standing at 32.5 Crores as compared to the PAT for FY2021, which was registered at 16.8 Crores. In terms of loan book, in terms of profitability, in terms of net worth of the company and leverage on all the parameters the company has been performing very well. The loan book of the company has increased from 1124 Crores to 2379 Crores as on March 31, 2022. This is being supported by the equity capital from the promoter and a debt, which is very much essential for the financial services business we have got more than 28 lenders on boarded as on March 31, 2022, which are there to support future growth trajectory of the company as well. Since day one as we have committed to get the loan book diversified and present into three to four different business segment the company has been falling back continuously basis and the SME, MSME business is also getting traction day by day. As on March 2022 13% of the entire loan book is diversified into SME and MSME segment, earlier last financial year the number was only 3%;

however, in this financial year the company has opened more than 10 branches and now it is getting diversified into the regional level as well, which is catering to the local needs of the B2B customer and also focusing on a digital framework to the B2C customers as well. In terms of the future expected growth as you have asked, so over a period of next two to three years the company intends to grow this loan book from 2000 Crores to at least 7000 Crores to 9000 Crores odd trajectory wherein again the loan book will totally be diversified into various different segments apart not only catering to the loan segments but also we are coming up with fee based income kind of a structure, this year itself within ARKA Fincap we opened a new division called the distribution division wherein the company got a very good attraction and a fee income of almost 5 Crores for the financial year. This distribution income taking a confidence from here we are coming up with an AIF also and gradually will spread its wing to the other areas of financial services as well. I hope I am able to answer your question in detail.

Munzal Shah: When you spoke about this fee income of 5 Crores can you share more details?

Amit Gupta: It is more like syndication income wherein the company itself does not participate but it is a totally third party wherein we go into the market and bases our analysis and the thing I can use a judgement and commitment kind of a thing; the lender is also agreeing on the credit worthiness of the borrower and they are ready to sanction and disperse the limit.

Munzal Shah: So, it is basically syndication?

Amit Gupta: Yes, this is syndication income.

Munzal Shah: Secondly like you mentioned that you are looking at multiple fold increase in the loan book maybe three to four times in the next two years' time right?

Amit Gupta: Two to three years.

Munzal Shah: So, let us assume three years, so how much capital would you need and from where would this incremental capital come in if Kirloskar is providing 1000 Crores?

Amit Gupta: So far the commitment from the promoter side is 1000 Crores.

Munzal Shah: Should we assume that Kirloskar can pump in beyond 1000 Crores at a later date?

Amit Gupta: I can only say that it is not yet decided.

Munzal Shah: Because earlier historical commitment was 1000 Crores, now there is a change in the communication I presume that there is a possibility that beyond 1000 Crores can be?

Gauri Kirloskar: Once the 5000 Crores book size is crossed we will come back with future plans and it will be in line with how financial services, companies and businesses raise money and we will come back to you with those plans.

Munzal Shah: So, till 5000 Crores there would not be any further capital indeed that is what one should assume?

Amit Gupta: Yes, I can give you the breakup of this also, for this 5000 Crores of a loan book we need the equity capital of 1000 Crores, there will be a drawback of profit of a company internally as well and which is very well enough to take us to the leverage of forex, so we will leverage to 4000 Crores plus 1000 Crores of equity from the promoter will easily take us to 5000 Crores.

Munzal Shah: Sure, thanks a lot. Second question is with regards to cash flow, the company has been generating lot of cash flows not only from operations but also historically from working capital, so going forward what kind of usage do we see for these cash flows and how much capex do we see or we have more acquisitions in the horizon, so if you can just throw usage of these cash flows actually and also if at all there is a possibility to answer in this forum or whatever because the Kulkarni families have intent to sell their stake in the markets, which is roughly 14% odd, so if you can throw some light on that also it would help us?

Pawan Agarwal: Munzal, let me answer your first question, you are right the company generates impressive cash flows from operations and as we have informed earlier also we are actively looking for the right opportunities in the market and we will pursue our M&A pursuits going forward, but these businesses would be on the periphery to our businesses you know what we are doing in KOEL whether on the energy side or on the water management side and obviously the cash gets deployed on capital expenditure as well as dividends so those things will continue in future, next year also we intend to spend about Rs.85 Crores to Rs.90 Crores towards capital expenditure largely the amount would be invested on emission norms readiness, which is going on especially CPCB 4; and also BS V is going to kick start this year so some amount of investment will go in that also, and that journey will start. Motor also will require some capex investment, but not a very significant amount, but there will be some capex towards that also, so that is how the funds are going to get deployed. Moreover the Board has also reviewed the capital allocation framework in the current year, which was presented by the management, so there is a plan, there is a method, as to how the cash is going to get utilized over the period of next two to three years.

Munzal Shah: Last like there is a lot of noise like we hear in media about these diesel gensets somewhere they are getting banned or somewhere they are not getting banned, we have also mentioned about alternative fuels actually, so if you can throw some light on this what is happening exactly it will help us again?

Pawan Agarwal: Arvind would you like to take this one?

Arvind Chhabra: Yes we do keep hearing and as you know that there is an association named IDEMA who is leading this on behalf of the diesel engine manufacturers and they are working very closely with the authorities, so as we say this is as of now speculation, there is no firm notification and all, but the relevant people are already taking up with the authorities. At the same time as the norms are becoming more and more stringent and we are all compliant to that and then the shift to the cleaner fuels and other alternative options is definitely going to play with the standby power applications too.

Gauri Kirloskar: I would also like to add to that, as we move to gas and other fuels especially in India they are taking about ethanol and methanol we are working on all of these and you will hear in the coming days about when we are ready with these technologies.

Munzal Shah: Thank you very much.

Moderator: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital Services. Please go ahead.

Alisha Mahawla: Sir, good evening. Thank you for taking my question. Sir, firstly just wanted to know what is the volume growth we did in FY2023 I missed that number earlier?

Pawan Agarwal: I cannot hear you Alisha, you have to a bit louder, please.

Alisha Mahawla: Just wanted to know what is the volume growth we did in FY2022?

Pawan Agarwal: Again, it would vary from segment-to-segment in power generation; you are talking about FY2022 growth over FY2021, right?

Alisha Mahawla: Yes.

Pawan Agarwal: So power generation has grown by 25% to 30% volume wise, in industrial we have tractor and other than tractor which is basically all construction equipment and off highway equipments, so tractor there was a degrowth and in other segments construction there was a growth, modest growth not significant, I cannot remember exact growth numbers, and other element also was more or less at the same level or there was a slight degrowth.

Alisha Mahawla: Sure, and also earlier in the call you mentioned that we have taken price hikes in phases throughout the year, have we passed on all the costs pressure that we have faced in the last year or is there still some balance that is not being covered and if so how much?

Pawan Agarwal: The cost increase has been going on, or rather the input cost increase has been going on through the year and as I mentioned earlier Q3 we did not take much of price increase, but from Q4 onwards we have accelerated both the timing and the quantum of price increase across our business segments and accordingly you can see that the raw material costs to sales ratio which is there in the published result in the previous quarter which is quarter ended December 2021 was 71% and which has come down to 65.5% in the March quarter, so which means our actions are showing result in terms of the sale price increase.

Alisha Mahawla: Understood and is this a sustainable number, gross margin level 35% or like you were saying manufacturing cost of 65%?

Pawan Agarwal: Very difficult to predict the number, looking at the volatility of commodity prices going forward but all I can tell you at this point of time is that we are committed to pass on the input cost increase to the market very promptly unlike in the past, so our endeavor is to slowly march towards the margins that we were making earlier and which got a setback in the financial year FY2022 especially in the first couple of quarters, so we are actively working towards that and you will see better results going forward.

Alisha Mahawla: Understood and just one question if I may, we did mention again earlier in call that we are seeing strong visibility on the back of industrial capex and government infra spending, but what kind of volume growth we are targeting for FY2023?

Pawan Agarwal: Cannot give you really revenue guidance or volume growth guidance at this point of time, simply because things are still quite volatile, you know supply side and the availability of components, etc., these are quite uncertain times as of now, so it will be difficult unfortunately for us to give any guidance.

Alisha Mahawla: But assuming the volatility like you were mentioning cost of commodities etc., can we assume at least a double digit volume growth across segments?

Pawan Agarwal: Cannot give any commitment on this at this point of time.

Alisha Mahawla: No problem, thank you Sir.

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

Amit Shah: My question was more pertaining to the CPCB4 norm implementation so as we understand that from next year onwards CPCB4 norms would get implemented so just wanted to understand do we see any prebuying to happen in this particular financial year that is FY2023 and what is the kind of price hikes that will materialize once the CPCB4 norms gets implemented?

Pawan Agarwal: Arvind can you just answer this question please?

Arvind Chhabra: Amit, so there two questions, the first one is that do we see any prebuying happen, if we go by the historical trend there are chances, but it is difficult to say at this stage reason being is as Pawan mentioned that the kind of volatility which is really in the market is very difficult because ultimately the consumer is the one who has to decide that when he wanted to mature his presence. As far as the raw material costs again it clearly depends upon how commodity would behave, but if you have to benchmark the current standard then definitely there will some bit of increase which would come in from CPCB2 to CPCB4, but the exit numbers are still to be concluded because the tests are still going, so once the products are finalized we will have the exact outlook.

Amit Shah: And Sir, one more question, I just wanted to understand on the Optiqua portfolio, since it is an upcoming product portfolio that we have developed what is the kind of contribution that we envisage from the Optiqua portfolio and if you can give us a guidance with regards to the growth prospects of Optiqua over the next two to three years, so that would be really helpful Sir?

Pawan Agarwal: Thanks for this question, Amit. Optiqua as you know we formed this company and we acquired the business Optiflex Industries the partnership firm with a view to growing the ancillary and allied businesses and I am happy to report that FY2022, which was the first year of commercial operation and in fact we did business for almost 10, 10.5 months, it clocked a revenue of Rs.40 Crores out of that about 18 Crores was from KOEL and LGM and 22 Crores was external sales so it was quite up to the mark and this was in line with our expectation in the first year. Going forward also we see a good opportunity in the marketplace for the products, which are produced by Optiqua both for sell through LGM and KOEL as well as products which are getting sold by Optiqua under its own brand name, which is the Optiqua pipes and Optiqua cables, etc. Next two to three years difficult to comment, but I do not see any reason why we should not be crossing 100 Crores to 120 Crores in the next two to three years time. As far as the margins are concerned as you know the Optiqua company is in the business of winding wire, cables, pipes where the scale matters there as your volumes go up as you sale number go up the margins start improving. In the near term possibly one to two years it would not be very impressive probably around 4% to 4.5% margin, but if you are able to scale up this business which is what our aspiration is to take it to 300 Crores to 400 Crores business, there is every possibility that probably we can get 5% to 6% or 7% margin in this business.

Amit Shah: Sure, that is helpful. Thanks, that is it from my side.

Pawan Agarwal: Can I now request Shrikant, who heads our international business to give a flavor on what is happening on the export side, what is the demand environment and how is Kirloskar playing out, over to you, Shrikant!

Shrikant Pataskar: Thanks Pawan. Briefly speaking we have been active in Africa and Middle East region traditionally and in the recent times we have expanded our presence in America region especially in the Latin America region, we are also looking at introducing market oriented new products which are more like offering product solutions to the markets, since it is a very segmented market different countries have got different requirements from the products we have to adopt to those requirements. The opportunities going forward look quite bright for us especially as our deliveries are not as much affected as our competition, which is opening new customer accounts for us and also with the new products that we are introducing our market coverage is getting expanded and that looks quite promising for this year. Our key factors which are of concern one is we are still not very sure about what can be the impact of Russia-Ukraine war on some of these markets and secondly the logistics environment still remains quite challenging, availability of containers for shipments and the logistics cost, so those two are the challenges that we are looking at. We are already working partly on improving the container loadability making optimum utilization of the container space where we can reduce the impact of increases in the logistic cost to an extent, so that is briefly, we are looking in terms of the product verticals, power generation is one segment which offers opportunity and fire-fighting engines the reasons that we supply fire-fighting complex where we have to develop product wins specifically from international market that will bring us a very good opportunity especially in UAE.

Pawan Agarwal: Thanks, Shrikant.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Gauri Kirloskar: Thank you everyone for joining the call and for the interest in the company and your question.

Pawan Agarwal: Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Antique Stock Broking that concludes this conference. We thank you for joining us. You may now disconnect your lines.