"Kirloskar Oil Engines Limited
Q4 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 Q4 and FY '23 Earnings Conference Call of Kirloskar Oil Engines Limited hosted by Antique Stock Broking. As a reminder, all participant lines will be in 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 then zero 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.

Amit Shah: Thank you, Yashashri. Good afternoon, everyone. I welcome you all to Q4 FY '23 Post Earnings Call of Kirloskar Oil Engines Limited. To discuss the results today, we have with us now from the management of Kirloskar Oil Engines Limited, Ms. Gauri Kirloskar, Managing Director; Mr. Anurag Bhagania, CFO; and other senior dignitaries from the top management.

I'll hand over the call to Ms. Gauri Kirloskar for her opening remarks, post which we can start the Q&A session. Over to you, ma'am.

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

I will start with an overall business update, and Anurag will update you about the financial performance. A little less than a year ago, we started a journey of 2X-3Y. We said that core as an organization will grow 2x in 3 years. With that strategy in place, we started working on a major business transformation effort. The transition is still a work in progress. And for an organization of our size, it is a 3- to 4-year process. As is the case with any major business transformation effort, it is complex, it touches every part of our organization and many a times, we have to learn on the go.

For an organization that has been in existence as long as KOEL, the change is even more complex than honestly challenging at times. And while we are doing all of this, the leadership team is fully cognizant that we have an existing organization to run immediate numbers to be delivered and stakeholder expectations of today to be met while getting ourselves organized for the future. It is a delicate balance that we are trying to strike. And so far, we have been pretty successful.

The Q4 numbers and the FY 2023 numbers are indicative of both the beginnings of our transformation and also our ability to execute today's business opportunities while keeping a firm eye on the future. I am very pleased to present the Q4 and FY 2023 numbers. We continued our strong performance in Q4. For the quarter, the top line growth stand-alone was 16% and the full year revenue grew at 25% year-on-year. Across the board, both in the B2B and the B2C businesses, we saw strong growth. Demand in the B2B segment, especially in Power Gen and industrial engines continue to remain robust. On the B2C side, our channel expansion strategy played out well.

I would not attribute our performance only to the work that we are doing on strategy and execution, but also about a mindset of looking at challenges as opportunities and making full use of the opportunities when presented. Right through the year, we have had challenges around supply chain, but we were able to leverage the domestic supply chain nurtured and built over years to mitigate global supply shocks. We had the opportunity in terms of a stronger-than-expected order board, but our teams executed well to this challenge. This gives me immense confidence on our 2X-3Y strategy and our progress.

Now looking at the P&L performance, stand-alone EBITDA for the quarter was at INR99 crores, which is down by INR3 crores year-on-year. This is due to a onetime provision that we have taken as any good corporate citizen wood. We have made a provision of INR28.1 crores in line with our company policy of providing for aged overdue receivables. We are in active discussions with the customer for recovery of this amount and are reasonably confident we will collect this money. In the case that we are not successful, we have worked out a plan B to recover this money.

Despite this onetime impact for the full year, EBITDA is INR427 crores at 10.4% margin and is 59% up year-on-year. This performance is a mix of our efforts on pricing strategy and product cost improvements, product mix as well as volume gain due to strong demand. On overall yearly performance, exports grew around 50% year-on-year. I consider this good progress, and we are hopeful of maintaining our export growth volumes year-on-year.

On the B2B side, we are fully geared up now for the CPCB 4+ transition that is effective 1st of July. In fact, I'm happy to share that we are the first in the country to receive CPCB 4+ certification from ARAI on one of our product platforms. On the product side, manufacturing side and on the channel and aftermarket side, we are progressing as planned, and I'm confident that we will be ready with the right products at the right cost, at the right quality and all at the right time.

At a consolidated level, revenue from operations for the quarter is INR1,384 crores, which is 17% growth year-on-year. The full year revenue from operations is INR5,024 crores, a 25% growth year-on-year. At the net profit level, Q4 was at INR79 crores, 16% growth year-on-year. Net profit for the full year stood at INR332 crores, registering 94% growth on year-on-year. This reflects our efforts to improve profitability across all of our business segments.

This year, we completed the acquisition of LGM, and it is now a 100% subsidiary of Kirloskar Oil Engines. Our LGM business recorded INR122 crores of revenues for the quarter and INR546 crores for the full year. Our current focus is centered on implementing our leadership and management practices within this organization. And I'm very enthusiastic about the potential for LGM. Aseem and his team have a clear strategy, and they are already making steady progress on this front. We have acquired land to consolidate the LGM factories into one optimized unit, and our plan is to move into this factory before the end of fiscal year '25. We do expect to see further operational efficiencies with this factory consolidation.

Now coming to segmental performance, I wish to draw attention to the increase in profitability in all 3 segments. The B2B segment saw a margin improvement of over 200 basis points. The

B2C segment turned its margins from negative approximately 1% last year to a positive 3%. And the Financial Services segment also experienced an improvement of approximately 200 basis points in margin.

With all the business updates done, I would like to also give an update on our ESG efforts and plan. Last year, we voluntarily presented the BR SR along with our annual accounts. Throughout the year, significant progress has been made in establishing a robust governance structure and implementing a comprehensive policy framework for our ESG initiatives. This demonstrates our commitment to creating value for all our stakeholders.

Furthermore, I am pleased to share that our Nashik plant was honored with the first price for National Energy Conservation Award 2022, organized by the Bureau of Energy Efficiency under the Ministry of Power, Government of India. The award was presented by the Honorable President of India. This recognition signifies our continuous efforts to optimize energy consumption and reduce our environmental impact. We remain committed to our mission to prioritize ESG considerations and contribute to a more sustainable future for our company and society as a whole.

To sum it up, I feel very proud of what we have achieved in the last 1 year, and it gives me immense confidence as we go into the next year. As part of the 2X-3Y strategy, we said that we will work on 5 core pillars, which are our core growth, technology, channel, operations excellence and people. Work is happening on each of these areas. Some are already showing results and some will over time. Reflecting on the progress we have made on the 5 pillars this year, I feel more assured of our capabilities. Having said that, there is still a lot more to be done, and my team and I are invested in our strategy and in executing our strategy.

With that note, I would like to stop here and hand the call to Anurag for his update on the financials.

Anurag Bhagania: Thanks, Gauri. Good evening, everyone. You've heard the business update. I will run quickly through the financial performance for the quarter and the year. As you see from the numbers, Q4 was another good quarter, I would say. I am happy to report that this is the third quarter in a row where we actually hit INR1,000 crores or plus in terms of revenue from operations, and I'm confident we are building a very strong foundation for our journey ahead.

Coming to the financial performance, I will start with a stand-alone performance first and review the Q4 financial year '23 performance on a stand-alone basis. Revenue from operations stood at INR1,152.6 crores for the quarter 4 financial year '23 versus INR990 crores for the same quarter last year, which is a 16% increase year-on-year. EBITDA stood at INR99.2 crores for the quarter 4 '23 versus INR102.6 crores for the same quarter last year, which is a 3% decline. EBITDA dropped first time below double digits due to onetimers impact, which Gauri also mentioned in her opening remarks. Profitability and expenses, as you know, includes a onetime cost of INR28.1 crores on account of provision for doubtful debts for aged overdue receivables.

We are in active discussions with the customers. But as per our consistent policy of good accounting standards, we are providing for this amount. On recovery, this provision will be reversed. EBITDA margins stood at 8.6% for the quarter, and this was 10.4% in the prior year same quarter. Net profit stood at INR64.9 crores for the quarter versus INR119.6 crores for the same quarter last year. Please note that last year, there was also a onetime gain coming out of sale of Arka, our subsidiary shares to the tune of INR52.6 crores. Cash and cash equivalents was higher than INR200 crores, actually, INR210 crores.

Now looking at the full year '23 financial performance at a standalone level. Revenue was INR4,116 crores versus INR3,300 crores for the prior year, which is a 25% increase year-on-year. EBITDA at INR426.9 crores in financial year '23 versus INR268.8 crores for the financial year 2022, which is 59% increase year-on-year. EBITDA margins at 10.4% versus 8.1% last year, and net profit at INR270.3 crores versus INR208 crores in the last year, which is a 30% year-on-year increase.

Here, if we remove the onetime impact of Arka shares, the net profit actually grew 74% year-on-year. Our working capital, which was trending at worse in the first half of the year have started to show early signs of softening. The increase in demand, the higher volume had led to significant increase in working capital, almost INR162 crores in the first half of the year FY '23. In the second half, we've actually seen a INR60 crores plus decline from that working capital level.

Now looking at the consolidated performance for the quarter. Revenue from operations was INR1,383 crores for Q4 FY '23 was INR1,182 crores for the same quarter last year, which is a 17% increase year-on-year. Net profit at INR78.9 crores for the quarter versus INR67.8 crores for the same quarter last year, which is a 16% increase year-over-year. And on a full year basis, revenue from operations stood at INR5,023.8 crores versus INR4,022 crores the prior year, which is a 25% increase. It's important to note at a consolidated level, we crossed the INR5,000 crores mark.

Net profit at INR331.7 crores for the financial year '23 versus INR170.9 crores in the prior year, which is a 94% increase year-on-year. As you know from previous quarters, we've adopted new reporting segments for our businesses, B2B, B2C and the financial services. Accordingly, I will share the financial summary in line with the new reporting segment at a consolidated level. Please also note that the prior year numbers have been adjusted to align to the new reporting changes that we've made.

Let us now look at the consolidated segment performance. For our B2B segment, the revenue for the quarter was INR1,000 crores, which is a 16% growth year-over-year. The segment PBIT stood at INR75.4 crores. For the full year, the revenue was INR3,582 crores, a 27% increase year-on-year with a PBIT of INR336.5 crores, which is a 65% growth year-on-year. As I mentioned earlier, these numbers reflect a onetime cost impact of INR28.1 crores in our B2B segment. So you will see the effect in the segment margins. Without this onetime impact, the full year segment PBIT has actually grown 79%.

B2C segment revenue for the quarter was INR271 crores, which is a 5% growth year-on-year. The segment profit PBIT was INR11.6 crores and for the full year, the revenue stood at INR1,071 crores with a profit of INR29.1 crores. For our B2C business, the highlight for the year is the business turning profitable. We expect to keep the momentum, and we'll continue to look for operational efficiencies to drive further from here. Our Financial Services segment revenue for the quarter stood at INR112.9 crores, reflecting a 76% year-on-year growth. The segment profit stood at INR16.6 crores, at 13.7% PBIT margin.

The Board of Directors in the meeting held today, 19, May 2023 have recommended a final dividend of INR2.5, which is 125% per equity share of INR2 each for the financial year '22-'23, subject to the shareholders' approval. This takes the full year dividend to INR5, 250% per share. This reflects 27% dividend payout ratio as a percentage of our net profit, which is in line with the payout ratio that we've had in the last year. As you know well, we are intentionally building cash reserves to allocate towards our strategic priorities in our 2X-3Y journey. Overall, as we have moved one year ahead in our 2X-3Y strategy, I am happy with the growth and the overall financial performance.

On that positive note, I would open it up for questions.

Moderator: Thank you very much. We have our first question from the line of Ashwani Sharma from ICICI Securities. Please go ahead.

Ashwani Sharma: So a couple of questions related to the CPCB norms. The first one is, was there any prebuy sales included in the Q4 numbers? If yes, how much it was? And if not, what is the current status? That is my first question.

Rahul Sahai: Hi, Ashwani, this is Rahul. While we are seeing an overall increase in demand, we are not seeing much of prebuy volumes kicking in this yet. Some of that may come in, in this quarter. So that's to answer your first question. What was the second part that you asked?

Ashwani Sharma: So I was asking what is the current status. I think you have answered both the questions on that. Secondly, just for understanding, so once it is implemented, what is the kind of cost impact that you would see in the final product? And how do you see your Power Gen margin shaping up post implementation?

Rahul Sahai: So if you look at our costs, and I mentioned this in the earlier calls, the cost impact will vary by node anywhere between 25% to 40%. And as far as our margins are concerned, I can't give a clear picture in this forum. But what I can say is that our margins will likely be somewhat similar.

Ashwani Sharma: Similar margin. And finally, on CPCB, this technology, overall, how much capex we would have spent so far?

Anurag Bhagania: So we are, over a period of time, investing in building capacity. Specifically for CPCB, I think it's anywhere in the range of INR100 crores to INR140 crores. We'll give you the exact number while we are on the call.

Ashwani Sharma: Okay. Those are my few questions.

Moderator: Thank you. We have our next question from the line of Sidharth Srikumar from I Thought. Please go ahead.

Anurag Bhagania: Ashwani, I'm ready with the answer. It's between INR100 crores to INR120 crores. That's the overall number on the CPCB 4+ investment so far.

Moderator: Mr. Sidharth Srikumar, we have unmuted your line. Please go ahead with your question.

Sidharth Srikumar: So I would like to ask you what is your revenue and margin outlook for the next three years.

Gauri Kirloskar: Hi, Sidharth. So we've actually communicated in our 2X-3Y strategy that our revenue target at the end of FY '25 is INR6,250 crores at a double-digit EBITDA margin.

Sidharth Srikumar: Okay. Double digit means, can you give me a ballpark number.

Gauri Kirloskar: So I can assure you that it will be better than what it is now, but I can't really give you an exact number here. We are focused. And if you look at the strategy that we have articulated, we are focused on increasing the revenue share from the areas where we see higher profitability, which is specifically exports and aftermarket revenue, and this is how we hope to increase our margins.

Sidharth Srikumar: Okay. So another general question, like in your experience, what is the demand scenario in rural India and in urban India, if you can give that bifurcation. Compared to, say, three years ago, four years ago, how is the demand scenario right now?

Aseem Srivastava: Yes. So this is Aseem here, Srikumar from B2C. If you see on the rural side, last year was one of the most challenging year because of rains also and also because of a lot of initiatives from the government side on the water and stringent compliances. So we feel this is the direction and rural demand for the next few years will remain challenging.

In urban, if you see, because of infrastructure development, we believe that demand will be better and it will be increasing.

Sidharth Srikumar: So one more last question is that like will the diesel or petrol-driven power generators, will they replace eventually by renewables or natural gas-related generators, is there a set of disruption?

Rahul Sahai: This is Rahul. So what I can say is that there is a fuel transition taking place, and it will happen slowly. It will depend on the application on what kind of energy source it goes into. But what we will see is over the next maybe five, eight years, natural gas will become a transition fuel. And then there will be other fuel sources that will come into the mix. There are certain segments where electrification will come into the picture, such as railways. But a lot of these things will happen over a period of time. So what we are confident about is internal combustion will remain and Kirloskar Oil Engines is going to continue to focus on internal combustion.

Moderator: Thank you. We have a next question from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: Gauri, great numbers. I think that INR28 crores write-off to put the numbers in perspective. Two questions. One, can you talk to us a little bit about what's happening on the export side, what are the conversations, what are the trends you see over the next 12 months to 18 months in the context especially of the weakness you're seeing in Europe?

And the second question is on the raw material side, we've been seeing softness. So does that mean it translates into expanding margins for the next quarter or two at least before the transition plays out?

Gauri Kirloskar: Great questions. I will let Rahul and Aseem comment on the exports that we are seeing specifically in the B2B and the B2C businesses. And we will answer the question on raw materials.

Rahul Sahai: Hi, Jeetu, this is Rahul. So what we are seeing on the export side as well, there is significant demand. In fact, there is a significant pending order board that we are trying to execute. Especially if you look at market or markets such as Middle East, Africa, Southeast Asia, which are some of the markets where we have larger strength. If you look at the European and the American markets, there is a lot more compliance and certification requirements. So our presence there is limited as of now. So on the B2B side, that is my response on exports.

On the raw material side, while we have seen certain commodities softening, a large content also is of proprietary parts. So we haven't seen a significant change or reduction in our costing levels. And whatever we are seeing softening of in cases, we are passing on the benefits to our customers. If there are opportunities to do value engineering, then we are expanding our margins with that. With that, I'll hand over to Aseem.

Aseem Srivastava: So on B2C side, if you see this year, both on farm mechanization and pump business, we have done much better than last year with a better margin. And this has happened because of a very simple strategy of deepening and widening where we are going into new countries. Same thing will continue this year also, and we feel that B2C export business contribution of overall sales will further increase this sale.

On the commodity side, I think we now have a very good system in B2C, where we have passed on the inflation to the customer. We'll continue with that. The softening will have very little effect overall to the market. We have other ways by which we are increasing margins.

Moderator: Thank you. We have a next question from the line of Charanjit Singh from DSP. Please go ahead.

Charanjit Singh: Congratulations on good set of numbers. So first question is on the high kVA gensets. In terms of how we are doing on the high kVA nodes and in the specific markets like data centers and all, how we are scaling up. That's what my first question is.

Rahul Sahai: This is Rahul. So what we have begun to do is we have begun to execute orders with data centers, and we have completed a few projects with them because as you are aware, our range today expands right up to 1,500 kVA. In parallel, there are some programs that we are undertaking to expand this, but we are already seeing opportunities for data centers, and we are focusing on the execution there.

Charanjit Singh: Okay. And sir, if we look at from the overall exports perspective, there is a strong opportunity, which is emerging, which has been discussed by other players also. So is there a kind of a targeted number what we want to have as a percentage of sales exports? And also the margin profile for exports, how is that versus the domestic business?

Rahul Sahai: So on the B2B side, our target is to get exports for the international business to about 30% contribution to revenue. And the margin profile will be significantly healthier than what our current domestic margins are at.

Aseem Srivastava: Yes. So on B2C, also, we have the same target of 30%. And then B2C also our margins are much better than the domestic.

Charanjit Singh: Okay. And sir, if you look at how this CPCB transition, there's definitely going to be a price hike. So what's the kind of quantum of price hike, which you are looking at in terms of the manufacturing of the old rating products, for that does happen and by how is that demand looking like in terms of the prebuy. So if you can just touch upon from a quarterly perspective, how you're looking at the transition from the old rating to new rating price hike other aspects.

Rahul Sahai: Yes, sure. So if you look at the price increase, what we have already passed on about a 3% price increase last month. And we will be watching this very closely because each player will come up with their own pricing strategy for this. I have given an indication of the cost impact we are likely to see. We are currently formulating our pricing strategy, and we're going to be watching this one very closely. So I may not be able to talk about our pricing strategy going forward for this year.

Charanjit Singh: Okay. Sir, if I may just squeeze in one more question. So we have this large in this business where Nuclear used to be a larger part of the overall and lumpy orders. And Nuclear is kind of making a comeback now in the Indian market. That's what government sources are talking about. So any thoughts like how this large engine business can grow for us any outlook you can give for the new hurdles?

Rahul Sahai: So if you look at now what we call that business is industry business, but what you're referring to as large engines, we are seeing demand from Nuclear Power Corporation and the likes of these kind of customers. So the demand is certainly there. What we have is with the K4300 platform and the development we are doing, we will have our large engine platforms that are being manufactured out of our Nashik plant. So we are quite bullish about that.

Moderator: Thank you. We have a next question from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: Yes. My first question is pertaining to the Power Gen segment. As a year, we've seen 20% growth in value terms. So two parts. One is, if you could broadly share what was the volume growth and a factor of price increase plus product mix improvement over here?

And secondly, also, if you contrast this 20% growth number with the industry growth, how that has been? And how our market shares have moved across different modes in Power Gen, if you'll give some perspective on that?

Rahul Sahai: Sure. See, if you look at the overall industry, the overall industry has roughly grown and I'm removing the telecom volumes for now, at roughly around 9.8%. And if you look at our volume growth, our volume growth is at about quarter-on-quarter, about 12.4%. So we are actually gaining market share from some of our key competitors. So from a volume standpoint, that is significant. And if you look at the mix, we are seeing significant traction in our range between 250 kVA to 750 kVA. So there's a lot of growth happening there. In fact, if you look at the recent Frost & Sullivan Report, you'll see that there is a lot of traction on the 750 kVA node from Kirloskar Oil Engines. So what we were talking earlier about getting into high horsepower, we are actually there.

Sandeep Tulsiyan: Okay. And so this is -- quarter-on-quarter, essentially, you have shared the numbers for fourth quarter. If you could also give us a perspective from the year as a whole? And also market shares, if you could share across some of the key nodes that will give us some perspective into it.

Rahul Sahai: Yes. So if you look at our volume growth in Power Gen, it's 10% year-on-year. And if I look at the overall market, we have definitely grown faster than the market.

Sandeep Tulsiyan: What would have been the industry growth in volume terms for last financial year?

Rahul Sahai: For the last financial year?

Sandeep Tulsiyan: Yes, 10% is volume growth for oil, so what will this number be for the industry?

Rahul Sahai: I don't have that number off the -- I can check and let you know.

Sandeep Tulsiyan: And in terms of market share, if you could give us some perspective where our total market share is and how that is spread across the nodes?

Rahul Sahai: So our market share overall by volume would be about 30%. So by volume, we're the largest player in the genset market. And we dominate specifically in the range of 320 and 250 below. So that is where bulk of our volumes are from. Over a period of time, we've been gaining traction on nodes beyond say 20 KVA as well.

Sandeep Tulsiyan: Got it. Another question is on market share.

Anurag Bhagania: On your earlier question, while we don't have the exact market share numbers for the financial year. But what I want you to consider as an alternate is compare the competitive performance of our peer group companies, 2 out of the 3 published quarters of the last year, we've actually grown faster than the rest.

Sandeep Tulsiyan: Understood. The credit sales I just wanted to get a perspective of essentially the big share other than the other largest industry players, what is essentially happening on the French company side? Are we marginalizing the smaller guys? Or how is entire comparable scenario shaping that what I want to do in this time?

Rahul Sahai: See, what we are noticing is that with stricter emission norms coming in technology becomes a big play. And only the serious competitors or serious companies who are interested to remain in the genset market will likely remain because the CPCB 4+ emission norm is actually a very aggressive emission norm. It's very close to EuroStage V.

So what we envisage is over a period of time, the players that are not as serious or were essentially buying engines from somewhere assembling and playing the role of an assembler rather than focusing on the search. They may have complexities in dealing with some of these emission changes.

Sandeep Tulsiyan: Understood. Another question is on the new product initiatives that we have put in place in the last few years in areas of models as well as some of the expansion of farm mechanization product range. If you could just provide a perspective on that, where are we in terms of this new product development? And can you just talk about this clear strategy, how much are you building at least in the next 2 years to come from this? And how much are we looking at it from a longer-term perspective where the size of these businesses could be?

Rahul Sahai: So see, some of these businesses are incubation businesses. So for example, in motors, we are first focusing on stabilizing that business. But if you look at the last 2 quarters, all our focus has been on product development to deal with emissions and the fuel transition. So we are focusing very heavily on our core products at this moment.

Sandeep Tulsiyan: Understood. And yes, on one point, which the earlier participant asked on the data center front. You said the existing product ranges up to 1,500 kVA. But in the past, we have mentioned comments that the demand is, of course, in a much higher range. And since we don't want to miss out on this, we will be partnering with some of the buys to provide this solution in the interim while we develop those solutions enhance. So there are being that driven if you could just update on that as well.

Rahul Sahai: So if you look at the platform that we have K4300, we can further develop that platform to get into even higher ranges than 1,500 kVA. So the architecture is modulus. Power cylinder designs have been the same.

Sandeep Tulsiyan: So up to what range can we provide the outlook about 1,500 kVA, is it -- is it multiples of 1,500 kVA, is it?

Rahul Sahai: So the way to look at it is the K4300 currently is a 12-cylinder engine that can be intended up to 20 cylinders. And so the 16 and 20, and you can go up to 3,000.

Sandeep Tulsiyan: Okay. Understood. That's it on my side.

Gauri Kirloskar: Sandeep, I just wanted to add something because you mentioned the partnering. We generally are following the strategy of build, buy or borrow where we evaluate the time, cost and effort to take to develop it ourselves or buy the technology or partner with someone. And we will continuously do that. And if we have a relevant update in that regard, we will disclose it when there is a development. So that's what I wanted to say on your question.

Moderator: We have a next question from the line of Sanjaya Satapathy from Ampersand Capital Investment Advisors LLP. Please go ahead.

Sanjaya Satapathy: My first question is that, can you please tell us what percentage of your revenue will be impacted by this CPCB launching?

Rahul Sahai: So if you look at our product range, close to about 46% of our business is our power generation business. Now most of that comes under the CPCB 4+. Our range is currently 800 kilowatts and below. I'm saying most because we have the K4300 platforms as well. So only they will be excluded, but that is a very small portion of the revenue today.

So that's close to about 45%, 46%. And if you look at industrial applications like power car and certain defense genset, those may be impacted as well over a period of time. So what I would say is eventually roughly around 55-odd percent of our business will be impacted by CPCB 4+ emissions change.

Sanjaya Satapathy: Understood. And sir, considering such a huge price increase that is likely to happen and the emission change is just about a month or away from now. Why is it that the prebuying isn't happening as much as it would have happened in the previous circumstances?

Rahul Sahai: See, if you look at it from an end customer standpoint, CPCB has given relaxation that the customer can buy a CPCB-2 product until 31st December. The mandate to manufacturers is that we can't ship out beyond end of June. So on 1st July, we have to start manufacturing CPCB 4+ compliant product. So the customer can buy from our GOEMs. So there is that started, which you need to consider. Having said that, in this quarter, we are seeing in this coming quarter, I mean, right now, we are seeing some signs.

Sanjaya Satapathy: Understood. And is it that your parts shortage or something which is retaining to meet that observes in demand for CPCB long and how big the inventory buildup is happening at your own at that level?

Rahul Sahai: I may not be able to answer a lot of these questions because they're leading. All I can say is that we are pretty geared up for it.

Sanjaya Satapathy: Understood. Sir, basic purpose of asking this question is that how big the disruption will be post implementation of the norm for your sales and profitability and your plan for fiscal '25, this anything change because in the past, we have seen that it has been fairly disruptive.

Rahul Sahai: So for sure, some of these emission changes are fairly aggressive. But when you're talking about disruption, what specifically are you referring to?

Sanjaya Satapathy: I mean your numbers probably will go down when -- after the prebuy gets over and to meet the new norm, typically it takes time. And also the price being so high, the customers may not really come forward to buy for a very long time. So those kind of aspects. I'm just trying to understand how will that play out this time around?

Rahul Sahai: I think some of these standard demand cycles will play out. So I mean, if you look at the automotive or commercial vehicle industry, some of these things are fairly standard.

Moderator: We have a next question from the line of Amit Shah from Antique Stock Broking. Please go ahead.

Amit Shah: Congrats on a good set of numbers. I just wanted to ask firstly on the B2B side of the business. Our Industrial segment for entire FY '23 has registered a very strong growth of 22-odd percent. But when I look at the fourth quarter number, the growth has been sort of a mid-single digit. So what is leading to this particular slowdown? Is it more of a 1-quarter phenomena? Or may we see some sort of slowdown in this particular segment? If you can highlight some insight on this particular thing?

Rahul Sahai: So actually, what has happened is last year, Q4 was abnormally high for us. What we have seen is significant growth in our industrial segment even this year. So it's not that this quarter was perfectly poor. Last time we had high execution in billing in Q4, same time last year. So on the industrial side, actually, we see a very positive outlook going forward.

Amit Shah: And sir, which are the areas, do we see a similar sort of growth continuing into FY '24 that we have witnessed in FY '23? And which areas can contribute to such a strong growth, if you can just highlight on this particular.

Rahul Sahai: So if I look at on the industrial side, there are a lot of places where today, we have products that could be used for those applications, but are not being used. And so we see a lot of white spaces there. So that's the first opportunity that we have. The other opportunity is with the emissions change, there is significant traction because the product becomes more complex and proprietary. So we are expecting to see higher growth in the aftermarket as well.

And lastly, if I look at international markets opening up as a result of this emissions change, Kirloskar Oil Engines has largely developed products for the Indian market. So with this CPCB 4+ coming in, we are now very close to EuroStage V. So there will be new markets that open up for us, which we can aggressively go after. Of course, in many cases, it will require certifications.

Amit Shah: Okay. And sir, export has been at this point of time, contributing 12% of the overall revenue, and we have been targeting 30-odd percent. So which countries do we believe can contribute such a significant growth, which are the countries that we are targeting? And which segments can contribute such significant growth for us, if you can just highlight?

And as you rightly pointed out that a few of the product categories will be requiring certification. So how long does the certification take? And when can the product portfolio be available to the new countries that we are having?

Rahul Sahai: Right. So I will first talk about portfolio expansion because right now, the full scope of our portfolio and our plans on product expansion are not going into international markets. So as we stabilize some of these products, the larger scope of our product portfolio will start going into our traditional stronghold of Africa, the Middle East and Southeast Asia. So one is proliferation of the of products, which we may be filling in India, but we haven't opened them up to international markets. So that's number one.

Number two is we are looking at our channel structure globally as well. So we are going to be looking at very closely what kind of partners would help us win in which kind of markets. And we are seeing demand coming in from Middle East as well. Of course, the Chinese partners we will need to engage with them and transact in a tax-efficient manner because there are local duties and laws that we will need to work with. So that's number two. So number one was our full product range. Number two was looking at our channel structure.

And number three is entering markets where we've traditionally not entered in. So if you look at our presence in U.S., if you look at our presence in Europe or Australia, it's been very limited. So that's the number three that we'll be focusing on figuring out what is the appropriate entry strategy there.

If you look at U.S., for example, it requires EPA and car certifications and each of those certifications can take up to 1.5, 2 years. So some of our products are actually EPA-certified and we are shipping some products to the U.S. right now. But over a period of time, we want to expand that presences as well. I hope that answers the question.

Amit Shah: Sure, sir. One more thing on the export opportunity side, do you also consider white labeling for the dominant brands which are present in the countries? Or will like to address the opportunity individually or independently. So what is our thought process over there? If you can just -- that is...

Rahul Sahai: So traditionally, if you look at white labeling, it's not a very profitable business strategy. So why we are open to evaluating all auctions, but white labeling is something that we haven't been looking at to be seriously at least over the last 6 months.

Amit Shah: And on the Power Gen side, sir, even in this particular quarter, a very strong growth. So which are the segments that end markets, basically, which is witnessing or gaining such strong traction to us. And whether there is any market share gain in the Power Gen segment, if you can say at that. So that will be my last question.

Rahul Sahai: Yes. If you look at the last quarter, there is a lot of demand coming in from segments like telecom, infrastructure, health care. So those will be the big ones.

Amit Shah: Any market share gains, sir, in this particular segment?

Rahul Sahai: Overall, we've gained about 1.5% market share last quarter. I can't necessarily speak about some of these segments within that.

Moderator: We have our next question from the line of Chandramouli Jagannathan from Patterson Securities. Please go ahead.

Chandramouli J.: Sir, when I look at the Arka Fincap segment-wise profit previously, it's got beaten up like anything compared to the last quarter and overall. How is it shaping up overall? And what is the future layer of Arka?

Gauri Atul Kirloskar: Hello, sir. You're on the line?

Chandramouli J.: Yes, ma'am, I'm there on the line.

Gauri Atul Kirloskar: Okay. Please take the question.

Amit Gupta: Sure. Sir, just to answer your question, you're comparing the Q4 along with the Q3 number. The Q4 number have been basically a little bit down because the disbursement that happened mainly on the fag end of the quarter. You would appreciate that even in the Q4, the March being the busiest quarter. So the AUM growth has come in the fag end of the quarter.

That is why the income part is also little bit lower as compared to the Q3 on an overall basis. And further there, we have created certain provisions there also on a standard asset basis. That is why the profit is coming down. But if you see the overall profitability of the financial year, it is much ahead as compared to the previous year itself.

Chandramouli J.: And what would the future guidance, can you give me something for that '24? Future guidance, how is it shaping up?

Amit Gupta: Sir, as a company per se it is shaping up very well. What we have been committed towards it, building it across the three different business segments, our commitment and focus is totally towards it. We have been opening new branches as well. Currently, as on 31st March, we were operating from a 14, 15 branches. This quarter, we are opening up new branches itself. The retail plus MSME AUM, if you see as on 31st March 2023, has grown up to 29%, which have been the growth journey in the near future as well. So we are adequately capitalized.

There have been a decent borrowing. There have been a decent liquidity into the company year-on-year, the profitability of the company is strong, and we don't see any held up in the portfolio quality as well.

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

Gauri Kirloskar: Thank you very much, everyone, for your interest in the company and for your participation on this call. Thank you.

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