"Kirloskar Oil Engines Limited Q4 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day, and welcome to Kirloskar Oil Engines Limited Q4 FY '24 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 "*"and then "0" on your touch-tone 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 very much. Good evening, ladies and gentlemen. We, at Antique Stock Broking, welcome you on this call to discuss 4Q FY '24 results of Kirloskar Oil Engines Limited.

We are glad to have with us Ms. Gauri Kirloskar – Managing Director; Mr. Rahul Sahai – CEO, (B2B Business); and Mr. Aseem Srivastav, CEO B2C business, along with the rest of the management team. I first congratulate the entire team of KOEL for delivering yet another strong performance. And now I invite Ms. Gauri to start with opening remarks, following which we will open the floor for Q&A. Over to you, Ms. Gauri. Thank you very much.

Gauri Kirloskar: Thank you very much for that kind introduction. Good evening to all of you. This Gauri Kirloskar, Managing Director of Kirloskar Oil Engines. Thank you all for joining the call today. I have with me Rahul Sahai – our B2B CEO; Aseem Srivastav – our B2C CEO; Ankur Gupta – CFO (B2B Business); Mr. Smita Raichurkar – Company Secretary; and Amit Gupta – CFO of Arka. We also have on call with us Mr. Sachin Kejriwal.

As you all must have gone through the Stock Exchange notice that we gave yesterday, Sachin has joined us as CFO with effect from today.

As usual practice, I will start with the business update first, followed by a quick overview of financial performance and then we will go on to the question-and-answer session.

As evident from the figures, this quarter has been remarkably prosperous for Kirloskar Oil Engines. We've achieved the highest quarterly sales in KOEL's history. Moreover, when considering the entire year's performance, it also marks the highest annual sales ever. I extend my heartfelt congratulations to the entire KOEL team and express gratitude for their unwavering support. This success is undoubtedly a collective effort with every member of the team contributing to their utmost. I firmly believe that this milestone signifies just the beginning of our journey ahead.

At KOEL B2B, we are transitioning from a diesel engine manufacturing company to a technological leader in power and energy systems. We are doing this by focusing on our internal R&D, making progress on our technology tracks and encouraging innovation within our team.

Coming to business updates. Overall demand has stayed strong this quarter too. If we look at the macroeconomic indicators, India's economy outperformed the expectations in Q3 '23, '24 with 8.4% GDP and was at a 6-quarter high. This trend continued. It was evident in the Q4 demand across sectors with high demand coming, especially from construction, infrastructure and railways in particular.

In power generation, Q4 demand, in particular, was a mix of CPCB-II and CPCB-IV+. As we approach the deadline of June 2024, we expect the CPCB-IV+ demand to start gathering momentum. On the industrial side, we saw strong demand from our construction OEMs and government sectors such as Railways and Defense. Another noteworthy update is on the international business side. This year, we crossed the Rs. 500 crore international sales mark for the first time, taking the overall share of exports to approximately 12% of total sales. As the CPCB-IV+ norms have opened up a lot of new avenues for our products internationally, I believe this is a beginning of the exciting journey ahead for us in the international markets. If we look at the business unit-wise breakups for the quarter as well as the full year, most of the businesses have grown double digit year-on-year.

On the B2B side, I will talk about also the new and alternate fuel products first. The Optiprime series is gaining good traction. We shipped 17 Optiprime products, including 4 2,000 KVA gensets during the quarter. Gas genset sales have also been encouraging, and we expect the demand for natural gas gensets to increase going forward. We sold 229 gas gensets during last year. Remanufacturing is now part of our offerings through the launch of the New Life brand. Last year, we offered 110 New Life products to our customers. This quarter, the International business unit clocked a 70% growth over last year's Q4, making the full year performance at Rs. 520 crores, a 32% growth year-on-year. Please note that these are standalone numbers.

Now coming to the B2C business:

Overall, the B2C growth was 7% quarter-on-quarter, mainly backed by a strong growth of Water Management Solutions. The farm mechanization business continues to decline for the quarter and also for the full year. We continue to increase market share in WMS due to our deepening and widening strategy, 83 deepening channels contribute to Rs. 22 crores and 91 new channels through the widening effort contributing to Rs. 26 crores. As you know, our focus has been on the profitability of the segment. We have been taking a series of steps to improve margins. The PBIT margin has improved 25% for the quarter and 73% for the full year.

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

These are standalone numbers. So, first, a review of the Q4 FY '24 Financial Performance on a standalone level:

Net sales is at Rs. 1,378 crores for Q4 FY '24 versus Rs. 1,141 crores for Q4 FY '23, a 21% increase year-on-year. EBITDA is at Rs. 178 crores for Q4 FY '24 versus Rs. 129 crores for Q4

FY '23, a 38% increase year-on-year. EBITDA margin is at 12.8% for Q4 FY '24 versus 11.2% for Q4 FY '23. Net profit is at Rs. 118 crores for Q4 FY '24 versus Rs. 93 crores for Q4 FY '23, a 26% increase year-on-year.

The year-to-date or the whole year performance on a standalone basis:

Net sales is at Rs. 4,806 crores for FY '24 versus Rs. 4,073 crores for FY '23, an 18% increase year-on-year. EBITDA is at Rs. 578 crores for this year versus Rs. 457 crores for last year, 26% increase year-on-year. EBITDA margin is at 11.9% for fiscal year '24 versus 11.1% for fiscal year '23. Net profit is at Rs. 375 crores for FY '24 versus Rs. 298 crores for FY '23, a 26% increase year-on-year.

Just as a note, the above EBITDA and net profit numbers are after adjustment of overdue receivables towards a customer and the detail is in the notes to the financial results. Looking at the working capital. With diligent efforts and regular monitoring, we've achieved a reduction of working capital by Rs. 140 crores in the quarter with inventory days down to 48 days from 60 in the last quarter. The cash position now stands at Rs. 269 crores at the end of the quarter. Please note that this cash is net of debt and includes treasury investments and excludes unclaimed dividends.

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

The B2B business reported sales of Rs. 1,210 crores for the quarter, which indicates a growth of 22% year-on-year. The full year sales were at Rs. 4,182 crores for the quarter, which is 18% growth year-on-year. Within B2B, the power generation reported sales of Rs. 518 crores for the quarter, which is 11% year-on-year growth and Rs. 1,905 crores for the full year, which is 15% year-on-year growth.

Industrial reported sales of Rs. 309 crores for the quarter, 28% year-on-year growth and Rs. 1,008 crores for the full year and 18% year-on-year growth. Distribution and aftermarket reported sales of Rs. 210 crores for the quarter, that's 19% year-on-year growth and Rs. 749 crores for the full year that's 19% year-on-year growth. International business reported sales of Rs. 173 crores for the quarter, which is a 70% year-on-year growth and Rs. 520 crores for the year, which is 32% year-on-year growth.

B2C standalone business reported sales of Rs. 168 crores for the quarter, which indicated growth of 10% year-on-year. The full year sales were at Rs. 624 crores for the quarter, which is 15% growth year-on-year. Within B2C, KOEL Water Management Solutions business recorded a revenue of Rs. 153 crores for the quarter, up by 22% and Rs. 537 crores for the full year, that is 23% year-on-year growth. Farm Mechanization recorded a revenue of Rs. 15 crores for the quarter, down by 45% year-on-year and Rs. 87 crores for the full year, down by 18% year-on-year due to seasonality leading to delay and subsidies from the states in where we operate.

Now, I will update you on the consolidated business:

LGM sales were flat, but with significant improvement in year-to-date PBT from Rs. 8 crores to Rs. 34 crores. The new plant construction is going as per schedule. LGM export grew at 15% and now contribute more than 30% of the revenue of LGM.

Now, I will update you on the consolidated business:

For the full year, Arka clocked revenue of Rs. 565 crores, which is a 52% growth year-on-year. The loan book as on 31st March 2024 was at Rs. 5,210 crores, including off balance sheet. Last last quarter, Arka had an exceptional item of Rs. 31 crores towards the provision made for investment in Arka's alternate investment fund due to the regulatory changes announced in December 2023. However, during this quarter, Rs. 15.6 crores have been reversed from that exceptional provision towards investment in Arka Credit Fund I post clarification from RBI.

Overall, if you look at the consolidated results, for the quarter, the revenue from operations is at Rs. 1,660 crores for Q4 FY '24 versus Rs. 1,384 crores for Q4 FY '23, a 20% increase year-on-year. Net profit is at Rs. 131 crores for Q4 FY '24 versus Rs. 107 crores for Q4 FY '23, a 23% increase year-on-year. At a yearly basis, on a consolidated level, revenue from operations at Rs. 5,898 crores for FY '24 versus Rs. 5,024 crores for FY '23, 17% increase year-on-year.

Net profit, Rs. 468 crores for FY '24 versus Rs. 360 crores for FY '23, a 30% increase year-on-year. Please note that the EBITDA net profit numbers are excluding the exceptional items and provisions and reversals or overdue receivables made for a customer towards sales made in the previous year. And for details, please refer to the notes in the financial results.

In Summary:

With 2 years down, the journey of our 2X-3Y strategic path, I am very satisfied with the progress we have achieved. This is despite the last-minute unforeseen changes in the CPCB-IV+ deadline. The deadline change has not just affected us on the top line target, but of course, we had to make a lot of changes on the production line and keep our supply chain agile to manage the transition. I would like to reiterate that this was achieved because of the support we received within the organization as also from our supply chain partners. Amidst managing these challenges, we remain steadfast in our pursuit of new business development and progress in research and development. This underscores the dedicated endeavors of our team in crafting cutting-edge products for the modern era.

Our aim is to excel in internal combustion engine technology, spanning alternate fuel, hydrogen blends and hybrid engines. These innovations are tailored to support our customers in their decarbonization journey. In summary, with a strong FY '24 performance, we are very much on track for our 2X-3Y target, advancing satisfactorily on the 5 growth pillars. We have registered a 21% CAGR in the last 2 years on the base of FY '22 revenue of Rs. 3,250 crores. We have reached double-digit EBITDA margins, too, reflecting a healthy above 40% CAGR on the EBITDA numbers. As we move towards the last leg of the 2X-3Y journey, we have our eye setup on the longer path that's ahead of us. We are committed to the strategic roadmap and our technology tracks. You will hear more about these in the coming calls, stay tuned until then.

With that short update, I would like to open the floor now for the questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amish from JM Financial Services PMS. Please go ahead.

Amish Kanani: My question is, is it possible on the B2B business to get some kind of flavor in terms of the volume growth versus value growth because we've seen quite a bit of value growth there and we have the CPCB-IV transition. Is it possible to understand how much was this due to price increases of the new products versus the volume growth and whether there was a volume growth in underlying business? That will be very helpful.

Gauri Kirloskar: Thanks for your question. Just give us a moment.

Rahul Sahai: This is Rahul. So, what's actually been happening is at an overall level, we are seeing not just value, but also significant volume growth. And if I compare versus the base of FY '22, which is where we started the 2X-3Y journey, the volume growth versus that year is about 25%.

Amish Kanani: And this is as a basket for the whole B2B or does this mostly have no mistake?

Rahul Sahai: For B2B helpful.

Amish Kanani: So, will it include international business growth as well? Or it will be largely the domestic growth, or B2B.

Rahul Sahai: This was B2B business.

Amish Kanani: And sir, is it possible or any chance to get the number for this year? Because there was the sense because of the price increase, the volume may not have come. So, the consumers are probably buying the higher value-added non-polluting products, but maybe volume wouldn't have come. But given the strength in the underlying businesses that we cater to, I mean, real estate and infrastructure, I was wondering whether the demand in volume terms also remains strong?

Rahul Sahai: So, our CPCB-IV shipments continue to be at about 20% and lower levels. So, the price increase that we were initially envisaging as per the regulations, didn't really come through in the last financial year because of the change in the norm, the soft postponement that ended up happening. So, which is why it is still fairly apples-to-apples at this point. In this coming financial year is when we are likely to see full impact of the price increase after June, which is where the CPCB-IV+ norms will kick in with full effect.

Amish Kanani: So, can I say in the context that no major price increase has resulted in a good volume growth? And in that context, is it possible to give us some sense what happens after the June thing?

Rahul Sahai: So, if I look at versus last year, we had at an overall level or, I will say, 10% volume increase. And the price increase after June would, I mean, while it will vary by node, it would be at a weighted average level of about 35% to 40%, which is due to the enhanced scope of the after-treatment systems and the electronics that are going into the engine for power generation.

Moderator: The next question is from the line of Ashutosh Garud from Ambit GPC PMS. Please go ahead. Please go ahead.

Ashutosh Garud: I just wanted an outlook on the margins going ahead given that we have clocked 17% to 18% kind of EBITDA margins in the last 3 to 4 quarters? That is one. And second, I wanted some color on the debt on the balance sheet? How do you think the debt will look like, let's say, 1 year down the line? And what kind of interest costs are you building in going ahead?

Gauri Kirloskar: So, I will answer your second question first, and then I will just hand it over to Rahul and Aseem to comment on the margins going forward in their businesses. So, on the debt side, we expect to maintain just the same because we have a strong cash position currently. So, we don't envisage that the debt levels would go up. Go ahead, Rahul.

Rahul Sahai: So, on the B2B side, our current EBITDA levels appear at about 14%. And we will look for opportunities to enhance that, but I wouldn't give any guidance at this point.

Ashutosh Garud: No, I didn't get your answer for the debt level, ma'am, if you can just repeat it.

Management: So, currently, we are having a debt of around Rs. 200 crores in the books. And we expect to maintain the same debt level. We do not expect to increase it as we have sufficient cash in the balance sheet.

Aseem Srivastav: Yes. On the B2C side, our EBITDA level is now around 6.6%. And going forward, this will slightly go up.

Moderator: The next question is from the line of Mahesh Bendre from LIC Mutual Fund. Please go ahead.

Mahesh Bendre: Ma'am, you just mentioned about the natural gas gensets, and we already sold quite some volume in this quarter. So, I mean, how is the product compared to a traditional diesel engine in terms of performance and pricing?

Rahul Sahai: So, if you look at our natural gas portfolio, we are actually getting our entire portfolio certified for the latest emission norm that is CPCB-IV+. In fact, most of it is already certified. Now if I compare it versus diesel, these natural gas-based gensets can only go where the natural gas availability is there.

If I look at advantages versus diesel, while the emission norm compliance is the same, it will comply with CPCB-IV. But natural gas is a cleaner and a more sustainable fuel source. Also, what ends up happening is the aftertreatment systems required to clean the emissions, they are simpler. So, there is some amount of derating that happens at a platform level when we move towards natural gas. But at a product level, if you compare the pricing of diesel and natural gas, there would be, for equivalent appear 30% to 40% price variation where natural gas is more expensive. But if you look at overall cost of ownerships, then natural gas gensets tend to be the better alternative.

Mahesh Bendre: And sir, a lot of investments are going in data centers now. So, have we introduced a product in that category? And what is the prospects in that segment?

Rahul Sahai: So, absolutely, data center is one of the key segments that we are focused on. In fact, we have refined some of our platforms, such as the K4300 and we have got the BCCC rating for some of our platforms also and so we are also, in particular, executing some orders with data centers.

Mahesh Bendre: And last question, what is the CAPEX plan for the current year and next year?

Gauri Kirloskar: Just give us a moment. So, if you look at our CAPEX plans for the current year, it's at about 1.5 to 2x what we did last year.

Mahesh Bendre: And so, what could be that absolute number, ma'am?

Gauri Kirloskar: It's approximately Rs. 400 crores.

Mahesh Bendre: And this is the for expansion of the facilities?

Gauri Kirloskar: For some capacity enhancement and also investing along the lines of the technology tracks that we have defined on the R&D side.

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

Teena Virmani: Just wanted to get some sense on the demand scenario in the current quarter, quarter 1 of FY '25 as to how is the inventory status of CPCB-II now? And how is the traction coming in along for CPCB-IV, even prior to the implementation from the month of July? So, how do you see quarter 1 of this fiscal panning out in terms of power genset demand?

Rahul Sahai: So, Teena, this is Rahul. What we see at the moment is demand for CPCB-II continues to be fairly strong. We continue to fulfill our obligations to our customers as far as executing orders are concerned. What we expect is through this quarter CPCB-IV+ will pick up slowly, but I think it's really when this quarter ends is where the switch over to CPCB-IV will happen.

Teena Virmani: So, how is the inventory status of CPCB-II? Is there enough inventory of CPCB-II to last till June in the system? Numbers for KOEL, but generally for the industry.

Rahul Sahai: Yes. So, I mean, you are right by asking that question because the parts in many cases are quite different. But from our standpoint, we planned the inventory ahead. There's no problem.

Teena Virmani: So, you expect the demand for CPCB-II to remain till June and there is sufficient inventory to cater to that demand?

Rahul Sahai: Correct.

Teena Virmani: And then if you start shifting towards CPCB-IV?

Rahul Sahai: Yes, then there is a switchover.

Teena Virmani: My second question is related to the other expenses, which are down in the current quarter. So, is it more to do with the performance of the B2C division where we are seeing some kind of improvement in the margin for B2C and that's the reason other expenses are down, or any specific reason is there for lower other expenses?

Gauri Kirloskar: Teena, can you just be a little bit more specific, what number are you referring to coming down?

Teena Virmani: Yes. So, in quarter 4 of FY '24 for standalone business, when we see overall other expenses as a percentage of sales, it is down to around 14.7%. And when we compare the same number for 4Q of FY '23, this number is 16.4%. So, even though the absolute amount would have increased, but as a percentage of sales?

Gauri Kirloskar: So, Teena, that's just fixed cost leverage that you're seeing because of the increase in volumes and sales.

Teena Virmani: So, what is a sustainable number going forward with this level of nearly 14.7% or so, is it looks to be the sustainable number going forward as volumes improve?

Gauri Kirloskar: Yes, it should be.

Teena Virmani: If I may ask 1 last question, then I will join the queue again. My another question is related to exports. You've seen a very good traction in export numbers in the current quarter and even for the full year. So, what's the strategy to increase exports from the current levels. Because as per your strategy plan, your target is still higher on the export front. But how do you plan to grow export numbers further from the current levels in terms of geographies, in terms of nodes? Or is it something that you're targeting something inorganic to meet the current targets which are given in the strategy plan?

Rahul Sahai: Teena, this is Rahul. See, on the international side, we are looking at developing the market. So, it's not just exports. It's actually international business for us because we have to generate the leads and orders and things like that. So, we are evaluating each of the geographies very carefully. You may have seen in some of the messages we've given out, the Middle East and the U.S. are key markets that we're focused on. So, on the power generation side, we have GOEMs appointed in both these markets, which is something that we have not traditionally done, and we are operating via GOEM model now. And along with that, we are also taking a hard look at what is the structure required for those respective geographies to build for us. So, if you were to ask me what are the focus areas? The focus areas at this moment are Middle East and the U.S. We're being extremely purposeful. So, which is why I won't give anything away. It's proprietary at this point, but international business is important, and you are seeing the focus translate to numbers in the last quarter.

Teena Virmani: So, would there be any kind of elongated growth also would you be targeting to meet the targets given in strategy?

Rahul Sahai: So, we are evaluating all options, whether it's organic or looking at inorganic growth opportunities, either for market access or for certain technologies, we are evaluating all options.

Moderator: The next question is from the line of Ashwani from Emkay Global Financial Services Limited. Please go ahead.

Ashwani: My first question is on the Industrial business. If you see the performance has been very strong during the quarter. Was there any one-off large order during the quarter in the Industrial business? That's what I wanted to check. And what is the outlook that you gave going ahead?

Rahul Sahai: Yes. So, while I wouldn't give any guidance on the Industrial side, but what I can say is the Industrial business wasn't one large order. In fact, if you track the performance quarter-on-quarter, the Industrial business has grown fairly consistently. Of course, Q4 was relatively large for us, but the industrial business has grown pretty consistently. So, we engage very closely with our OEMs. We want to make our OEM successful, and we intend to grow with them.

Ashwani: Secondly, any feedback you would like to share with us on the Optiprime series of gensets, which you launched some time back?

Rahul Sahai: So, in general, we've got good feedback from our customers. Optiprime is a novel product in the market. And there is a clear positioning for it. I think there are clear advantages for our customers. And so the customers are also acknowledging that, which is why we've been able to sell 4, 2,000 KVAs in the last quarter. I mean at that range of genset, customers won't take a chance unless and until they are completely convinced. So, I think the Optiprime is a new product in the market. We're quite excited about it, and we're hoping that we can build further on the product in the months to come.

Ashwani: So, just to clarify, this is lost only in domestic market or we're looking for export market also for this?

Rahul Sahai: So, one of the orders that we fulfilled in the last quarter was for international markets.

Moderator: The next question is from the line of Sagar Gandhi from Invesco Mutual Fund. Please go ahead.

Sagar Gandhi: My first question is on your thoughts on 3 things. First is volume growth once CPCB-IV kicks in? Second is, how do you see realization is different for CPCB-IV versus CPCB-II? And third is given the experience of CPCBI versus II 10 years ago, we saw realizations dropping significantly when this transition happened, or I mean when this realization kicks in? So, how do you see this realization decline from 4 to 2 over the next 2 years?

Rahul Sahai: Thanks for that question. So, this is Rahul. So, if you look at volume growth, when I look at the industry, as we transition to CPCB-IV full time, we expect the volumes to be at a somewhat similar level, the kind of volume growth overall that's happening in the industry. I think in the short term, those volumes may remain flat for this year, and that's what we anticipate. But what will also happen is that there are a few companies that have their portfolios completely certified at this point. So, those respective companies may see market share gains. So, it's a situation that we'll have to play out for us to actually see what specific impact is there. But from our business standpoint, we are pretty geared up. I mean we have our portfolio certified, so we are pretty geared for that.

Now coming to your next question. If I look at the realization difference between CPCB-II and CPCB-IV, at this point, we expect the realization to be somewhat similar. We're not expecting a drastically different realization. But I'd be in a better position to comment once I have been through 1 or 2 cycles because the market forces will pan out, and we will have to watch for it. So, it's difficult to comment on that at this point.

Now you spoke about 2014, when the transition from CPCBI to CPCB-II had happened. Now that was a slightly different transition because each company had followed a different strategy and a lot of companies continued with mechanical platforms, even in CPCB-II. But what is happening in this transition is there is a convergence of technology where most companies are following the same technology path, which is that of whether it's a diesel engine or a fuel-agnostic engine, along with the selective catalytic reduction and a diesel oxidation catalyst. So, engine, it's DOC and an SCR. So, most companies are following the similar technology track.

Moderator: The next question is from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: You have great numbers, very satisfying to see this. So, 2 questions. Can you talk a little bit through the export side, what are the trends you're seeing? What's driving the growth? I know it was part of the plan? And do you kind of think that from here, there will be an acceleration over the next 12 to 18 months. What's the broad thinking there? The second question I had was on

Arka. So, we've crossed the Rs. 5,000 crore book size. And just love to hear what's the thinking there? And how do you see things from here going there?

Gauri Kirloskar: Rahul, will give you an update on the exports question.

Rahul Sahai: So, on the export side, we want to accelerate. We're being purposeful. But I mean, we definitely want to accelerate this business a lot more than what it is today. I can't give out a number at this point, but just in terms of our business contribution we wouldn't want the international business to go from the current numbers to be closer to about 15% to 20% sooner than later. So, that's something that we are focused on.

Jeetu Panjabi: So, just on that, you're seeing the growth trends there are promising at the order book and the discussions are all very positive. Is that fair to assume?

Rahul Sahai: Yes. I mean in the same side, we are exploring multiple avenues, frankly. And while the discussions are positive, but there's still a lot that needs to go in execution to make the sale and the billing, et cetera, happen. I mean, the opportunity for us is that we have very low market shares outside the country. So, even small market share like, for example, a 1% or 1.5% or 2% market share in a large market, for example, like the U.S. or some of these larger international markets, they are extremely meaningful from our business standpoint. So, we're not looking to change the industry at this point internationally, even small steps will go a long way for our business.

Gauri Kirloskar: And on the Arka side, Jeetu, thanks for your question. So, yes, we crossed Rs. 5,000 crore AUM size. And as stated on prior calls as well, I think the path that the business will follow now is looking towards the external market as well to raise capital and they'll be on that path.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Gauri, we had a plan to enter in the U.S. market to grow that. So, can you give some color on our journey to enter in U.S. market? And how do we see that market in the next 5 years?

Rahul Sahai: Yes, sure. So, if you look at what's happening globally, the global power generation market is increasing at about a 4% CAGR. There are 3 key markets: the U.S. China and India. These will be the large players, and I am talking about 5 years out, the next 4 to 5 years, this is what is likely to happen. So, U.S. is amongst the biggest power generation markets in the world today. The U.S. and China make up a large chunk of the genset market. When we evaluated multiple modes of entry, we realize that having a local partner who is vetted with us makes more sense. And if we can use a local brand that makes more sense versus going with our own brand, which is why we invested in a company called Engines LPG LLC that has the brand name of Wildcat.

Now Wildcat is a local American-made genset company, and the brand positioning is that it's made in the U.S. And we want to leverage that positioning and we're working very closely with

Wildcat to make Wildcat successful. So, our mode of entry for the U.S. market is alongside Wildcat, and we're working towards that. The U.S. market poses tremendous opportunities. I mean if you look at the overall market size, it's about, I mean, I would say, roughly $3 billion to $4 billion. And right now, the Wildcat business is very small, but I am pretty confident that we can make our strategic moves and even small market share gains will be very meaningful for us.

Bharat Sheth: And Gauri, now second thing, you said that we are making huge investment next year also particularly to develop a new product in R&D. So, can you give some color to what are the white spaces as on today and where this kind of investment is required? And how that will take our company over the next few years?

Gauri Kirloskar: So, if you look at some of the communication that we've done in the past calls, we have talked about the changing landscape in the energy transition that's taking place, and we have designed 4 technology tracks that we will be focusing on going forward. So, I will just ask Rahul now to articulate those 4 technology tracks because this is the path along which we are making these investments so that over the next, say, medium term, we're ready with the kind of products that we expect our customers would want in their decarbonization journey.

Rahul Sahai: Thanks, Gauri. So, Bharat, if you look at the 4 technology tracks that we have defined for ourselves, the first track is fuel-agnostic internal combustion technologies. Now our focus there is to build whatever products that our customers want as per the fuel that becomes available. So, if natural gas is a fuel that's becoming available, we will build a portfolio of products that work on natural gas. So, that's number one.

And similarly, for example, if you look at hydrogen or there are different fuel types, and we're working on all of those things. And it's all internally developed. If you look at our second track, we are looking at energy solutions, which include the likes of microgrids. So, setting up microgrids, which include synchronization across different energy sources. If you look at solar and genset, battery energy solar systems. So, we believe that there is a significant play that we can make there. And so that's our second technology track.

The third track is around electrification. We have been making our moves there as well. So, we have different kind of motors available now, mostly on the single phase and partly on the three-phase side. Also, we want to expand that portfolio and get into specialty motors. And our fourth track is around electrolyzers and fuel cells. So, that's an area of development as well. I can't give out too much right now, that’s proprietary but these are the 4 tracks that we are working on. And most of the capital allocation is happening along these 4 tracks, either to create capacities or in core R&D.

Bharat Sheth: I mean, can I ask one more question?

Gauri Kirloskar: Yes, sir. Please go ahead.

Bharat Sheth: If you can give also now color our user industry, how if you can give a number or tracking order, which are growing much faster and how much our product is there? And do we have any white space in that industry?

Gauri Kirloskar: Sorry, in which industry are you talking about?

Bharat Sheth: Our user industry, like the data center, tower, right from an online industrial and then marine side also?

Gauri Kirloskar: Okay. So, specific white spaces that we see within these is what you're asking.

Bharat Sheth: Which is growing much faster.

Rahul Sahai: So, I will give a few examples, and then you can feel free to ask me further questions. So, I will give an example of Railway segment. So, we did our highest-ever business in the Railway segment this last year and Railway is growing. Now within Railways, we are dominant in the power car application. But there are white spaces in, for example, track machine, OHE car, Tower Wagons. So, there are other applications where we are not present today in a meaningful way where we have opportunities. So, the white spaces very much exist.

Now if I look at, say, on the construction side, we are engaged with a lot of industrial OEMs. But we are still not present in certain applications like the 20-ton excavator. Similarly, if you look at mining, we are present in mining to the low hold stump trucks in some markets outside India. But on the mining side, we are not present in India. So, I would say each of these are growing segments.

And similarly, if you look at the data centers or look at on, I will say, fishery, the marine, these are all opportunities. We have to focus our product development on the opportunities that we see coming to fruition quickly and are also meaningful. So, white spaces definitely exist.

Moderator: The next question is from the line of Salil Desai from Marcellus Investment Managers. Please go ahead.

Salil Desai: No, I was a little curious to understand, you mentioned that 20% of your genset sales are in the CPCB-IV+ category. So, what kind of customers who are today buying CPCB-IV when there is no pressing need for them to do so?

Rahul Sahai: Yes. So, see, if you look at the regulation that has come in, the end customers or their suppliers whoever had given us orders by June of last year, end of June of last year, are the orders that we are executing right now. So, in a sense, this is all our already existing order board. The ones who had not, we are fulfilling CPCB-IV orders.

Salil Desai: I see. All right. So, more recent orders are likely to be CPCB-IV?

Rahul Sahai: Yes, correct. So, the more recent orders are likely to be CPCB-IV. The regulation was designed. So, the postponement or the soft postponement, the way it happened, if you read the verbatim, what it says is that we had to ensure that we have end customer orders or orders of their suppliers in our books by the end of June, and that has been submitted to the ministry. Now orders that have come in after that, we are fulfilling CPCB-IV orders.

Salil Desai: And given the typical production life cycle, should it be over by now? I mean, I am not sure why we have to wait till June for selling only CPCB-IV because you wouldn't take really 9, 10, or 12 months to deliver a product, right? So, in that sense, all new sales from, say, 1st of April onwards should ideally be all CPCB-IV. Am I missing something? Or is there a nuance on this, too?

Rahul Sahai: Well, the nuance is that till that time, so I mean, end customer orders or orders of their suppliers. So, till the time, there is a way that customers can get access to CPCB-II genset, they will try for that, which is why a lot of CPCB-II demand continues to exist. But from, I mean, strategically, the way we are planning our operations, we are planning to wind down our CPCB-II supplies through this quarter because we also need to ramp up on the CPCB-IV side.

Salil Desai: Understood, right. And just one more clarification. You mentioned that next year, you may see volumes being flat, but because you are in a position that the product is certified, there could be market share gains. Did I hear that right, understand it right?

Rahul Sahai: Yes.

Moderator: The next question is from the line of Mayank Chaturvedi from HSBC Mutual Fund. Please go ahead.

Mayank Chaturvedi: Just one clarification from my end. Somewhere I heard that you expect the realization of CPCB-IV+ to be similar to CPCB-II. So, can you elaborate? Because I think earlier, you were expecting a 35%, 40% price hike between, I mean, depending on the various notes. So, if you can elaborate on that?

Gauri Kirloskar: Yes. So, the price realization you're right, is 35% to 40% on average, depending on the node. When we were talking about it being the same, we meant on the margin side.

Moderator: The next follow-up question is from the line of Sagar Gandhi from Invesco Mutual Fund. Please go ahead.

Sagar Gandhi: Yes, I am sorry, I dropped off during my last question. So, I didn't hear your thoughts on realization drop once the competition kicks in after the CPCB-IV launch. So, if you can throw some light there?

Gauri Kirloskar: So, Sagar, just in the interest of time, we did answer the question. Unfortunately, you had dropped off. So, may I please request that you read the call transcript. And if you have any further questions, you're free to e-mail us.

Sagar Gandhi: So, I had one more further question and that is related to Kirloskar end usage contention that we've been hearing and contention on the similar businesses within group companies, especially related to the Farm business. Can you give clarification for these 2 points?

Gauri Kirloskar: Yes. So, unfortunately, I won't be able to comment on those issues because they're all subjudice in the call.

Sagar Gandhi: And my last question is on import content on CPCB-IV versus CPCB-II?

Rahul Sahai: Yes. So, our import content on CPCB-IV is roughly around 9% to 10% versus if you look at CPCB-II, our import content was around 3%.

Sagar Gandhi: 3%. CPCB-II was 3%?

Rahul Sahai: That's correct.

Moderator: Our next question is from the line of Mohit Pandey from Macquarie Capital. Please go ahead.

Mohit Pandey: My first question is just a follow-up. So, when you're down the line, is there scope for this import content to go down further? And in that sense, is there scope for margin expansion? That's the first question.

Rahul Sahai: The way I would request that we think about this is, we would look for the most reliable and cost-effective suppliers irrespective, honestly, where they are in the world. Now in case the expertise lies in India, we will digitize the supply. But in case the expertise lies elsewhere, we want to make sure that we're working with the best suppliers that we can work with.

Mohit Pandey: Very clear. And secondly, on the data center offerings, just wanted to understand if you are planning to invest in further new products for that market or do you think current offerings are sufficient to gain market share in that particular segment?

Rahul Sahai: We will continue to invest in a product roadmap that caters specifically to data center.

Mohit Pandey: . And just last question. So, in the initial remarks, I think you mentioned that with the CPCB-IV products gaining traction, that opens up for avenue on the export side. So, just wanted to understand, so without a regulatory push similar to what is there in India, do you think there will be absorption of the higher prices in the exports market or the high priced CPCB-IV+?

Rahul Sahai: So, each region has their own version of CPCB. So, there are certain norms that exist in many regions. So, for example, if you look at CPCB-IV+ in India, that's very similar to U.S. EPA Tier 4 Final, pretty close to euro Stage 5. So, there is some version of regulations around emissions that exist in many regions. The comment that we had made earlier around with these emission changes happening in India, opportunities open up for us was primarily around getting our product certified in India, but also getting the technology to ensure that we can introduce products outside of India because genset outside India, especially more mature markets, will operate with an after-treatment system for instance. Today, we have after-treatment systems, and we have the dexterity to plan our products with after-treatment systems. So, the opportunity is definitely larger today than what it used to be.

Moderator: Ladies and gentlemen, we'll take this as the last question. I would now like to hand the conference over to Mr. Dhirendra Tiwari for closing comments.

Dhirendra Tiwari: Yes. Thank you very much. Thank you, Gauri, Rahul and Aseem for giving us this opportunity to host the call and looking forward to continuing hosting you. All the best for the future. Thank you very much, and we will conclude this call now.

Gauri Kirloskar: Thank you very much to Chorus Call and Antique Stock Broking for hosting us and thank you for the interest in the company from all of the participants and your continued support. See you next time.

Dhirendra Tiwari: 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.