"Kirloskar Oil Engines Limited Q2 FY23 Earnings Conference Call"

November 14, 2022

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Moderator: Ladies and gentlemen, good day and welcome to Kirloskar Oil Engines Limited Q2 FY23 earnings conference call hosted by Antique Stock Broking. As a reminder, all the participants' 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 for 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. Amit Shah from Antique Stock Broking. Thank you, and over to you, sir.

Amit Shah: Good afternoon everyone. On behalf of Antique Stock Broking, we welcome you all to 2Q FY23 post results conference call of Kirloskar Oil Engines Limited. I am glad to have with us today, Ms. Gauri Kirloskar, Managing Director of the company; and Mr. Anurag Bhagania, CFO of the company.

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

Gauri Kirloskar: Good afternoon everyone. This is Gauri Kirloskar – Managing Director of Kirloskar Oil Engines. Thank you for joining the call today. Present with me on the call are Anurag Bhagania – Chief Financial Officer; Smita Raichurkar – Company Secretary; Rahul Sahai – CEO of our B2B business; Aseem Srivastav – CEO of our B2C business; and Amit Gupta – CFO of Arka Fincap.

As you are aware, we have had new colleagues joining us in the senior management team. Since they will be interacting with you for the first time on the call today, I will do a quick round of introduction. Anurag, our CFO, is a finance veteran with over 25 years of experience across finance and accounting functions, along with compliance and legal functions. He has been on the team for a couple of months, and I can say that the transition has been smooth. One more new colleague on the business side is Rahul Sahai. Rahul has joined us as CEO of the B2B business. Rahul comes with significant domain expertise in our industry. He is an expert in the power generation, industrial and aftermarket space, very well versed with technology, both current as well as the transition happening in our industry. He has also experience in channel strategy, supply chain, business turnaround, and technology & analytics deployment.

I will now start with an overall business update, and then Anurag will update you about the financial performance. A couple of months ago, we announced our 2X-3Y strategy, which is to double our top line in 3 years. And I mentioned then that there are strong macroeconomic tailwinds that we clearly see working in our favor. I had also said that a favorable environment will not automatically translate into business results. There is focused work that has to be done strategically for us to be able to reach the aggressive plans that we have set out for ourselves. I said we will focus on 5 growth pillars, namely core growth, channel, technology, operations excellence, and people. I strongly believe that if we keep our focus on these pillars and drive our strategies around them, results will follow.

On the macro side, the strong tailwinds continue. The focus from the government on infrastructure development and the upcoming changes in emission norms pose a great opportunity for us. Both of these favorable macro trends fall right into our core competencies. Strong in-house R&D is our strength, and we have the ability to develop fit-for-market products in-house. Our manufacturing acumen is strong, and we have a service network that is unmatched. All of this becomes a competitive advantage for us as the products become more complex. With the new emission norms, export markets become naturally accessible to us as our products will automatically be at par with global emission norms. However, there is a lot of work to be done for us on the exports side, getting the product certified, building the network and brand, and ensuring we have strong service support in place. But I feel that we have the right teams who can make it happen for us. This, along with the China-plus-1 strategy that many OEMs are employing puts a big focus on exports.

On the pump side, as you all know, we have completed the acquisition of LGM, and it is now a 100% subsidiary of KOEL. We see this business growing significantly in the coming years, and we are making the right investments in this business for us to move into high-margin manufactured products. This, along with the strategy of deepening and widening the channel, should see this business growing significantly.

For our financial services business, Arka Fincap, the investment as of Q2 now stands at around Rs. 987 crores. Please note this includes the profit on the change of shareholding of approximately Rs. 53 crores. So, with our total commitment of Rs. 1,000 crores at the net level, we have about Rs. 66 crores left out of our commitment.

As I said in my earlier interactions, our plans are aggressive. As announced in the 2X-3Y strategy, we are aiming for a top line CAGR of 26%. The strategy is there, the leadership team is in place, and work is ongoing around the 5 pillars, and step by step, we will make progress towards our ambition.

Now coming to the quarter performance. Q2 has been an encouraging quarter with 22% year-on-year growth in the top line for the quarter and 33% topline growth for the year-to-date performance. At the stand-alone level, we are at about Rs. 998 crores for the quarter and Rs. 1,942 crores for the first half. We have been able to clock a double-digit margin for the quarter as well as the first half. This essentially is a reflection of the steady price rises we had taken as compared to last year's same period to pass on the commodity price increases. At the net profit level, we were at about Rs. 73 crores for the quarter, which is 87% increase year on year and about Rs. 137 crores for the first half, clocking a 117% increase year on year.

While there are strong macro tailwinds, this performance is also a reflection on our ability to execute. As you are all aware of the constraints around the supply chain, we are not insulated from them, but a lot of the efforts put in over the years in building a resilient supply chain translated into these results.

On a consolidated level, the revenue from operations was at Rs. 1,228 crores for the quarter, a 23% growth year on year and about Rs. 2,420 crores for the first half making a 33% increase year on year. Anurag will delve upon this in detail in the financial performance update. Over to you, Anurag.

Anurag Bhagania: Good afternoon everybody. With all the business updates that we have talked about, I will take some time to go through the financial performance for this quarter. The positive macro trends, along with all the efforts in the lines of the 5 pillars of strategic growth that we have talked about in the past, I would say this quarter reflects the strong execution capability of our team. This has been an absolutely great quarter for us. If you have noticed, this is the second quarter in the span of a calendar year, and this is for the first time that we have hit the highest quarterly numbers for the second time in one particular calendar year. It is also for the first time that we have hit close to Rs. 1,000 crores in overall revenue from operations, delivering almost 87% growth in terms of net profit.

On the sales side, if you look at the businesses independently, all the businesses have delivered strong year-on-year growth. Power generation with a 24% growth, keeping the quarterly sales levels at almost Rs. 456 crores, Industrial business unit grew almost 40%, keeping revenues upwards of Rs. 225 crores for the quarter. We saw traction across our institutional projects with a year-on-year growth of 54%.

If we look at our half yearly numbers, overall, sales growth is close to about 33% and a total revenue of Rs. 1,942 crores. Power generation, industrial, and IPS witnessed over 40% sales growth. This quarter, however, the water management business was almost flat year on year due to unpredictable extended rains across the country, which you all know about. I would also like to highlight our export performance which has been absolutely outstanding. For the quarter, the exports grew 88% year on year, taking the overall number to about Rs. 141 crores for the quarter. And on a half year basis, the growth is around 78% to a level of Rs. 237 crores. Good growth and demand is visible across power generation, industrial, and agricultural segments in the international markets.

Now, overall, looking at the stand-alone performance for the quarter. Net sales Rs. 998 crores for Q2, 22% increase year on year, 6% quarter on quarter. EBITDA at Rs. 115 crores for the quarter, a 73% increase year on year, 12% quarter on quarter. This reflects what Gauri also talked about our price increase efforts and passing on all the raw material inflation. If we look at where we are coming from the last year, I would say, 70% to 80% of the price rises have already been passed on to the customers. EBITDA margins at 11.4% for the quarter versus 10.9% and 8.1% in the prior year, we are focused on our efforts to maintain double-digit profit margins and the levels of profitability that we aspire to get to.

Net profit is at Rs. 73 crores for the quarter, 87% increase year on year and 12% quarter on quarter. We are maintaining a good cash position as well. The net cash and cash equivalents at Rs. 193 crores despite the fact that we have invested more than Rs. 100 crores for LGM and Rs. 50 crores in the financial services business, well within our Rs. 1,000 crores commitment and also invested in the working capital during the quarter. We are 21 days of net working capital cycle. We expect to maintain the same levels for at least the next couple of quarters, I would say, owing to the multiple operating challenges that we see – challenges, which are, in a sense, also opportunities for us. There is technology development that is happening on the likes of CPCB-IV and new product development. And at the same time, we are seeing a significant uptick in the demand. For all of that, you will need working capital to support.

Let us now have a look at our segment performance. The electric pump business grew only by about 5%. Other segments which include farm mechanization and tractors, spare parts and oil business declined by about 4%, and the engine segment saw more than 25% growth on a year-on-year basis. Increase in GST from 12% to 18% did impact demand for the electric pump segment along with the rains that we earlier talked about.

As you know, during this quarter, we acquired the remaining 24% stake in the LGM subsidiary, which was already 76% earlier, making it a 100% wholly owned subsidiary. You may also refer to the holding structure that we have laid out in the presentation for the investors and analyst community available on our investor website. The financial services business' segment registered Rs. 83 crores in revenue with the asset under management as of September at Rs. 2,829 crores.

Summing it up, the consolidated performance revenues at Rs. 1,213 crores for the quarter versus Rs. 990 crores in the prior year, 23% increase year on year and 3% quarter on quarter. And net profit of Rs. 82.5 crores versus Rs. 41.7 crores same quarter last year, 98% increase year on year and a 1% increase quarter on quarter. I would say, to sum it up, I would like to link our performance back to the 2X-3Y vision that we have spoken about earlier. This quarter's performance with a 23% growth on the top line and a strong healthy EBITDA margin reiterates our aspiration to the 2X-3Y vision.

With this, I would like to hand it back to the operator so that we can take the questions.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Ronak Chheda from Awriga Capital. Please go ahead.

Ronak Chheda: My question was on the CPCB norms. How difficult it would be for the smaller companies to transition to the new norms? And would this in a medium to long term differentiate the large companies with the smaller ones in the sector?

Rahul Sahai: Ronak, this is Rahul Sahai, I am the CEO for the B2B businesses. Power gen, industrial, and aftermarket are the key areas I work on. Your question was essentially CPCB-IV plus which kicks in from 1st July factory out, and essentially after December end, there is no liquidation of CPCB-II inventory that can happen. That was the question. And you asked around how easy or difficult is it for smaller companies to prepare or ensure their readiness for the compliance. At this point, Ronak, I am not sure if I can necessarily answer for the others. But what I can certainly say is for Kirloskar Oil Engines, CPCB-IV plus is something that is very clearly on our radar, and we are geared pretty well for it. We have always relied on an in-house R&D. And that's actually the good news for us because we have focused on internal development and intimately know the products extremely well. So, when it comes to emission compliances, we have managed them efficiently in the past, and we will continue to do so even for CPCB-IV plus.

Ronak Chheda: My question was more from the tech gives the companies like us an edge over the smaller players?

Rahul Sahai: What I would say is that clearly, organizations like Kirloskar Oil Engines, where the R&D is in-house and they are not reliant on other engineering vendors or support, I think there is a clear competitive advantage and which is why this augurs really well for us.

Ronak Chheda: My second question is on the pre-buying which usually happens when transitions come in place for the industry. What is your sense on the pre-buy demand? Will it come? And is the supply chain equipped for the kind of demand which pre-buy can happen?

Rahul Sahai: We are clearly expecting a pre-buy to take place. Given the cost of aftertreatment, the prices to the end customers are going to go up. So, a pre-buy is evident. We are expecting a quarter's worth of pre-buy or 3 to 4 months' worth of pre-buy to take place. And over the next few months, there might be some demand normalization in this happening. But, at this point, we are calibrating all the numbers and we should be geared well for it.

Ronak Chheda: Our current capacity would be enough to cater to this demand? That is what you are indicating, sir?

Rahul Sahai: That is correct. Because what we have seen is that at a fairly granular level that we have looked at it, things seem to be on track. And our current supplier capacities are good enough to help us sail through the pre-buy season.

Moderator: The next question is from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta: Sir, I have 2 questions. One is on what was the volume growth in engines YoY?

Anurag Bhagania: When you talk about volume growth, you should remember that there is a lot of subsegment level information that we are talking about. And you have to measure it really at each product category level. Right now, at a very superficial level at an organizational level, if you really ask me, 6% to 7% is really the volume growth that we are seeing at this moment. There is a significant amount of inflation that is also driving it in terms of the overall sales growth. But 7% would be right to say in terms of the current mix that we have.

Falguni Dutta: And sir, what would be the absolute number of engines sold during the quarter?

Anurag Bhagania: Sorry, we don't go to that level of detail, and I would like to restrict my response on that one. If you prefer to still have this information, we can probably discuss it offline but absolutely not in the public domain.

Falguni Dutta: Or sir, if you can give us the capacity utilization?

Anurag Bhagania: Unfortunately, these are not numbers that we disclose in the public domain. I would like to refrain from sharing that on a wide call, but very empirically speaking, you look at the financial performance. Where we were in the last quarter versus where we are today. There is obvious relationship that we can establish. Clearly, there is improvement in the capacity utilization. We have not built any further capacities. That definitely is the trend that we are seeing.

Moderator: The next question is from the line of Asha Rawal from Subhkam Ventures. Please go ahead.

Asha Rawal: Ma'am, again, my question is on the CPCB. It's regarding, what is your strategy for the diesel engines going forward after looking at the CPCB norms and other pollution kind of things?

Rahul Sahai: What I would say is that at a very high level, each of these norms are essentially an opportunity for companies that have prepared well to ring-fence our businesses. Strategically, this bodes well for us. Having said that, beyond that, from a strategy standpoint, I may not be able to comment at this stage.

Asha Rawal: And my second question is on the farm mechanism side. Will you be able to tell me what is the EBITDA margin for the current quarter for this?

Aseem Srivastav: I am Aseem Srivastav, CEO of B2C business. Farm mechanization is a new baby that we have had for the last few years, and we are working on various initiatives to increase sales like what Gauri said about deepening and widening. We are also going into the export market. Right now, we will not be able to tell you much about the EBITDA margin on this.

Asha Rawal: Right now, you are not able to tell me the margin. Can we expect in the near term, any time frame can you give us? At what time frame we can see a sustainable margin from this segment? Any time line if you are able to provide me?

Aseem Srivastav: I think next year, you will see improvement in this on the margin side.

Asha Rawal: And then the second thing is, as you mentioned, the unseasonal rains and all these impacted farm mechanism and kind of things like tractors and other sales and pumps also, right? What is the demand right now as we can see the Rabi crop is already done?

Aseem Srivastav: This year was a little unusual because the rain was rampant and very heavy in some pockets also it got extended till October. So, across the regions, both in farm mechanization and WMS or water management or the pumps side, we have less demand. But we are seeing that demand picking up in November, and we are confident that going forward in the next few months, a normal demand will come back.

Moderator: The next question is from the line of Renjith Sivaram from Mahindra Manulife Mutual Fund. Please go ahead.

Renjith Sivaram: When I look at your export, as you have shown in the PPT, it has shown a growth from Rs. 75 crores to Rs. 141 crores. Out of this, how much is due to the rupee-dollar depreciation? Because that would have played a major part in terms of the value growth. And also, if you can throw some more light on the last analyst meet, you were explaining certain geographies where you are targeting. Which all are the new geographies or new touch points which we were able to add and how that will enable us in that 2X-3Y strategy? Because that is largely going to be driven by exports.

Anurag Bhagania: Renjith, you can straight away correlate it to the currency fluctuations. I think in the range of 10% to 12%, depending upon different geographies, is what is the currency impact on the overall export numbers. And I would also like to invite Rahul here. Maybe he can talk a little bit about where we are growing in the geographies that we are looking at.

Rahul Sahai: Renjith, if you look at our export business, we are focused pretty heavily on the Middle East. There is a lot of interest from North America and Northern Africa and South Africa as well. Those are the key markets for us and we are fairly focused on that as we move along. Strategically speaking, I won't be able to comment on this call. But I can assure that there are thought processes at play and we are figuring our growth strategy for international markets as well.

Renjith Sivaram: Is it that we supply these engines and there are OEMs in these geographies who fit these alternators and sell it as a genset or we have some arrangement with a third party where we fit the whole canopy and everything and sell it as a power genset? How does this work? Because in

India, it's OEM way. In these geographies, how does the transaction happen? Because for Cummins, they sell the whole genset as an export for LHP. Is that strategy we follow or we follow the OEM strategy? Just to get some idea, how are you going to create these touch points for future growth?

Gauri Kirloskar: That's a great question and is actually very relevant to the strategy that we decide and it changes country by country. For example, if you look at our South Africa market, we supply engines for a very particular application in the mining space and that is where we are the market leaders. In the Middle East, we are focused on, at the moment, firefighting pump sets. We supply engines for firefighting pump sets. In South Africa, we work straight with the customers through a distributor; in the Middle East, we work with OEMs; in the US, we are selling engines for gensets and for G-Drive engines, it's a different strategy. So, it depends on which market we are in, what is the potential that we see in the market, and whether it is in the power gen space or whether it is in the industrial space. There will be a difference in how we approach the market. There is no sort of blanket strategy that would apply to every market.

Renjith Sivaram: Do we sell them as KOEL brand only? There is no white labeling in any of these?

Rahul Sahai: As KOEL brand.

Moderator: The next question is from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: My first question is pertaining to this 2X-3Y strategy that we have put up. I just wanted to understand how do you foresee the revenue mix changing over the next 3 years from where it is currently?

Rahul Sahai: I'll talk about 3 things. 1) The first thing is CPCB-IV plus where there is a lot of content addition happening apart from the genset. There is the entire aftertreatment system that is coming in. And that's a big chunk of the power gen business that we do today. 2) All the growth opportunities on the international side. We continue to stay focused, and we are evaluating all models of growth and how do we establish a larger footprint globally. 3) If you look at our aftermarket business, the way we see where we are versus the entitlement, there is a significant opportunity for growth on the aftermarket side, which will drive the profitability. So, if you were to ask me what are the top 3 levers, those will be the top 3 areas that I talked about.

Aseem Srivastav: On the B2C side also, currently, our export for pumps is almost negligible from KOEL side, and that is one focus area. The same market that Gauri mentioned for engines is also available for pumps. Similarly, what we have found on farm mechanization in the export market in Africa is available where we have already supplied some and that will be our main driver. In domestic, currently, with deepening and widening, we are confident that we will be able to increase our market share. These are the 2 levers that we will use in B2C to go to our vision of 2X-3Y.

Sandeep Tulsiyan: Second question is pertaining to the agri segment, both electric pumps and the farm mechanization what we report separately for consolidated entity. We have seen the margins which were in the negative zone for 2-3 quarters and they had kind of flipped over to positive territory in the last quarter. But this quarter, again, we have seen a loss. So, exactly what is the concern here? If you could explain why have we gone back into losses? How do we see the margins improving going forward in these segments?

Anurag Bhagania: Sandeep, this is such a small segment. I think it should really be seen as we are incubating our business. I think we should realize the fact that as we are growing….

Aseem Srivastav: If you see the farm mechanization side, that is our new business. There, definitely what you are saying is correct. If you come to the pump business, we have made good margins in the last quarter also and this quarter also. And this quarter, despite so less demand and where many companies are struggling, we have made money. And I believe this will continue on the pump side for the next 2 quarters also.

Sandeep Tulsiyan: For the consol entity as far as the numbers that I have, pumps has a negative Rs. 3 crore EBIT. That is where the question was actually focused on.

Aseem Srivastav: On the consol side if you see, LGM is also included. LGM is a different story. There, we have a lot of fixed costs, and we are now working on deepening and widening. And this quarter and next quarter, we will be back to where we were in Q1.

Sandeep Tulsiyan: So, by next quarter, your margins should go back to Q1 level is what you are saying in LGM?

Aseem Srivastav: Yes.

Sandeep Tulsiyan: Next question was pertaining to the margins that we have done in the engines segment. I appreciate there is some operating leverage benefit also we would have seen, but is there any particular mix benefit or the sudden demand jump that we are seeing is causing some shortages of gensets because of the semiconductor issue is giving some favorable benefits to manufacturers, which you think can get rolled back in coming quarters? Or do you think this 10% plus margin is more or less a sustainable margin going forward in engines?

Rahul Sahai: I would say this is fairly sustainable. And I spoke a little bit about our focus on the aftermarket as well. So, I think we will continue to see some improvements as well.

Sandeep Tulsiyan: And lastly, on the new businesses that we have spoken about in a lot of previous calls; in pipes, cables, motors, and the waste management businesses that we get into. Any update in terms of revenue ramp-up that we have done in the past quarter? How do we foresee these businesses becoming a part of the total revenue? Do they start reporting any material number by FY24 if you could give some color on that as well?

Rahul Sahai: Many of these businesses are still in incubation stage. For example, if I look at electric motors, that is something where we are actively developing the product portfolio and trying to expand our presence, but I would still call it an incubation product. When it comes to products like organic waste composter, that is more a part of our ESG strategy rather than actively growing big numbers there. That is what I would say.

Sandeep Tulsiyan: And for the pipes and cables part?

Aseem Srivastav: Pipes and cables also actually is a new business that we are into. And what we have done now is we are using our existing channel of LGM and also WMS to sell pipes and cables. We are confident this business is more of a backward integration for us. Going forward, each of our pumps will go with our pipes and cables. By next year, this business will be far stable than what it is today.

Sandeep Tulsiyan: But if I were to look at, say 2 years down the line or 3 years down the line, for motors as well as for these pipes and cables, by when can it move out of this incubation stage and actually start delivering some external sales?

Rahul Sahai: From electric motors, what we are trying to look at right now is just building a portfolio. A couple of years down the line, we would expect it to become material.

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

Bharat Sheth: On the CPCB norms IV, we said that we have a large opportunity in the export market and where we have to work a lot on the strategy as well as the product and distribution. How big is the opportunity, particularly in the developed market like the USA which we referred to during the Analyst Day? And what are we really doing there to grow this business in the US market?

Gauri Kirloskar: Coming back to what you said about the norms, there is something that has changed for us and I just want to articulate that. Emission norms have happened in the past in India, but the emission norms that happened were never on par with the countries across the world, which had more advanced emission norms. And as a company that had primarily domestic sales, we never invested in developing a product for global markets if we could not sell it in India. What has changed today is with CPCB-IV coming up or even BS-V coming up 2 years from today, our product which is made for the Indian market actually becomes something that we can sell in all international markets because it is on par with the most stringent diesel norms across the world. That's why I am saying that today we are at a position or a time where we have this unique opportunity in front of us. And in line with that, we will start and we have already started looking at these advanced emission norm markets, whether it is Europe or the US, and in building our sales and service strategy there.

Bharat Sheth: What stage are we at? Of course, the product will be launched sometime in July 2023. On the scale of say 10, where do we stand today?

Rahul Sahai: I don't think I will be able to comment on a scale of 10. What I can say is that our plan is on track.

Bharat Sheth: Mr. Sahai, you talk about growing the aftermarket. And I believe we have a huge ambition of growing at a much faster pace than the rest of the business. Can you give a little more color what are we doing for aftermarket growth?

Rahul Sahai: If you were to look at historically, our business has been growing, roughly give or take if you look at the asset base growing at about 10%. And if you look at the aftermarket revenues, they have been lagging behind. The growth rate has been much lower. So, what we are clearly looking at is how do we enhance our Service Solutions business, how do we create more customer lock-ins and really engage with our customers beyond the warranty period and thereby enhancing our aftermarket business as well. There is a much larger focus on the aftermarket. Given where we are, I am pretty confident that going forward, we will be able to grow this substantially.

Bharat Sheth: And last question, Gauri, on…. we were talking of creating a partnership for technology tie-up for 1,500 plus kind of KVA business. Where do we stand and how do we want to enter into that market?

Gauri Kirloskar: As I detailed in my strategy for addressing the high horsepower space, which is a space which is growing, we will follow a buy, build, or borrow strategy. Whether we do it in-house or whether we talk to people outside and go into a collaboration, these are the kinds of things that we are looking at. At this stage, it is far too premature and preliminary for me to comment on which relationships are being built with whom, but we will certainly keep you updated when there is something definite to tell you.

Moderator: The next question is from the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: I have 2-3 questions; first, on CPCB-IV. While you have discussed quite a bit in terms of some of the implications and focus on aftertreatment, etc., since there is a significant cost implication to the consumer, in your view, what could be the impact in terms of consolidation of the nodes in the given segments in which they will be launched? And what is KOEL's preparedness to introduce alternate fuel products here?

Rahul Sahai: At this point, what I would say is, and it varies by node, but roughly, if you had to look at the numbers, the addition of aftertreatment raises the cost by roughly from 25% to 40-odd percent. That is the range that I would talk about. And what was the other question that you had asked?

Renu Baid: Given that there is a significant cost implication, in your view, which nodes or which particular segment or HP range you think there could be consolidation of the end market? The ratings of the gensets.

Rahul Sahai: You mean consolidation in terms of ratings consolidated?

Renu Baid: Yes, certain ratings which you think may not become viable anymore. Customers may switch to higher size gensets because of the cost implications or there would probably be a merger of ratings of the gensets based on the applications?

Rahul Sahai: At the moment, we don't really see that. There might be specific engine models where there are minor changes. It is quite possible that like-to-like engine platforms may not be there. So, there might be some changes that happen there. But beyond that, we are not expecting major changes in the ratings. Because from a customer standpoint, the power requirements remain consistent. So we don't see too much of a change there.

Renu Baid: Also, related to this, do you think because of this kind of cost implication, some of the alternate fuel products which earlier were not very attractive to the end customer, now, because not just the capital cost but the operating costs will also increase for consumers, the market for some of the alternate fuel products will open up? And if so, what is KOEL's preparedness to introduce such products in the market?

Rahul Sahai: If I look at alternate fuels, let me just segregate one point that we are an internal combustion company for the large part. And if it means alternate fuels, then alternate fuels also require a way to extract the energy off it. If you have been tracking our product launches, you would have noticed that we have been launching a whole bunch of gas gensets and we have commissioned an ethanol-based genset recently. We have a wide variety of fuels that we are working with. In fact, we launched the dual-fuel kit where we are creating retrofit options for customers, where you can look at anywhere between, say, 30% to 50% substitution of gas and run existing DG sets. If you were to see what kind of fuels and alternate technologies we are dealing with, as Kirloskar Oil Engines, we actually have a large gamut of it. We do believe that internal combustion is here to stay.

Gauri Kirloskar: And the only one point I would add to that is, it's not only the cost but also the fuel availability that will determine which way the customer goes. We can keep that in mind as well.

Renu Baid: And if you look at the LHP segment of the market, there has been a concern that that segment would be extremely susceptible and will eventually pick up a battery or some of the alternate options and probably will move away from a diesel-based backup. And KOEL has a significant exposure to 125 kV and below segment of the market. So, how should we look at the possible implications on this segment and potential disruption in the market?

Rahul Sahai: What I can say is that we aren't seeing too much of that today. In fact, a large chunk of our growth is coming from 15 to 30 kVA. There is a lot of growth in those markets. Strategically, over the longer term, we are constantly evaluating this, but we are not seeing battery or energy storage devices replacing the smaller gensets; we are not seeing that.

Renu Baid: One last question related to CPCB-IV which you did mention that aftermarket is a great opportunity. What kind of investments we are targeting to ensure that we get a better pull-through from the electronic based engine platform under CPCB-IV? Also, the distribution related revenue stream from the maintenance of the SPR, etc., would be significant. Any investments or CapEx that you have planned to maximize these opportunities?

Rahul Sahai: I can't give out the specific details here, but what I can say is that clearly, there is an opportunity for service getting more "proprietary" with the electronic fuel injection systems and the after treatment systems coming into play. And we are looking at the infrastructure necessary to service these products, whether it includes repair systems or whether it requires us to look at electronic fuel injection calibration stands at the channel partners. Those are the things that we are looking at, but I won't be in a position to give out further details at this point.

Renu Baid: One last question. Broadly, apart from the diesel genset and CPCB-IV related market, can you share how has the business outlook been for the construction equipment space? Especially after the implementation of CVB BS-IV. Has the volume uptick now back in the market? And the broader outlook of the company for the industrial segment as such?

Rahul Sahai: On the industrial side, we have actually seen a fairly strong uptick from our OEMs, especially if you look at, after the implementation of BS-IV, a lot of our 110 HP products have seen a lot of demand growth. We continue to see a lot of traction on the industrial side of the business and we are hoping for that to continue. So that's the expectation.

Moderator: The next question is from the line of Kunal from B&K Securities. Please go ahead.

Kunal: My question is pertaining to CPCB-IV. Sir, could you give us some sense of what kind of cost increase would you entail in the product because of the new CPCB-IV?

Rahul Sahai: What we are looking at…. and this varies by node, but we are looking at roughly about a 25% to 40% cost increase.

Kunal: Sir, my second question is for clarification. CPCB-IV, the dealers will be allowed to sell till what time? October, November, December? Basically, the manufacturing cannot be done post July is what I understand. Right?

Rahul Sahai: Yes. 1st July, shipments from the manufacturing unit kind of stop. So, CPCB-IV compliant engines and gensets need to be shipped from 1st July. And until December, we are allowed to have inventory in the channel. So, essentially, post December is where CPCB-IV plus compliant gensets can be shipped out from the channel.

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

Gauri Kirloskar: Thank you very much for your interest in joining the call. We look forward to seeing you next time. Thank you.

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