“Kirloskar Oil Engines Limited Q2 FY24 Earnings Conference Call”

November 3, 2023

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY24 Earnings Conference Call of Kirloskar Oil Engines Limited hosted by Antique Stock Broking.

As a reminder, all 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 an operator by pressing "*" 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. Over to you, sir.

Dhirendra Tiwari: Good evening, ladies and gentlemen. On behalf of Antique Stock Broking, I welcome you to the 2Q FY24 post results conference call of Kirloskar Oil Engines Limited. I am glad to have with us today Ms. Gauri Kirloskar – Managing Director of KOEL, along with the senior management team of the Company.

Firstly, we will have introductory remarks on the results by Gauri Kirloskar following which we will open the floor for Q&A. Over to you, Ms. Gauri.

Gauri Kirloskar: Good evening to all of you. This is Gauri Kirloskar – Managing Director of Kirloskar Oil Engines. Thank you all for joining the call today.

I have with me Rahul Sahai, our B2B CEO; Aseem Srivastav, our B2C CEO; Smita Raichurkar, Company Secretary; and Amit Gupta, CFO of Arka. We also have on the call today Mr. Ankur Gupta. He is the CFO for our B2B business.

I'll start with the business update. KOEL has had a stable quarter. The revenue for this quarter reached Rs. 1,047 crores, indicating a 5% year-on-year growth. It's worth noting that the first quarter figures saw a spike due to pre-buying in anticipation of emission norm changes. So, this quarter's numbers show a sequential decline against that backdrop. However, when considering the performance for the first half, the revenue amounted to Rs. 2,303 crores, marking a substantial 19% year-on-year growth.

For the B2B business, this was a quarter of transition for us. After the CPCB IV+ norms kicked in. We have a strong order board that encompasses different emission norms. On the power generation side, we continue to work through the complexity of managing multiple product lines catering to multiple emission norms. While this gives rise to supply chain and operations challenges, we are managing these challenges by closely watching our supply chain and optimizing our production capabilities to meet delivery timelines and our customer commitments. On the industrial side, we continue to see strong demand from our OEMs. We have the upcoming BS-V emission change in the construction segment, and we are working closely with our OEMs to enable their success.

On the international side, we have appointed an exclusive GOEM in the GCC region this quarter. We also further strengthened our presence in the firefighting segment by acquiring new customers. We believe these initiatives will help us tap into new opportunities and will lay the foundation of our growth plans on the international side. Sustainability and environment are a key focus area for us. We have several new products launches this quarter. We expanded our gas genset range and now have the most comprehensive gas genset range in the country.

We also unveiled completely new products such as our OptiPrime and OptiPrime Hybrid range of gensets. The OptiPrime range of gensets combine innovation with product efficiency. As a result, customers get a lower product footprint, more power, and maximum savings. This patented technology marks our entry into the high-horsepower range above 1,500 kVA and up to 3,000 kVA. These products are designed to cater to diverse power requirements across the various sectors ensuring businesses and communities have access to reliable, cleaner, and better power. Our fuel-agnostic platforms are engineered to operate efficiently on multiple fuel options including diesel, natural gas, biogas, and hydrogen blends providing unmatched flexibility to consumers. The orders for OptiPrime series have started coming in and the early signs are encouraging.

On the B2C side, our focus on stabilizing the business with RACE, i.e., reach, agility, cost, and engagement is working well. Pumps and the small engines business, which is more than 90% of KOEL's standalone B2C, has shown more than 20% year-on-year growth in the quarter. Our margins here have been on track. It has been 1 year now since we took full control of La-Gajjar Machineries. We have handled the transition well and our new plant construction is as per schedule. Our margins in LGM have improved since when we completed the full acquisition. Our export focus in LGM has shown good results with sales of Rs. 85 crores in H1, which is about 30% of LGM sales. The margin in the LGM export business has also improved significantly.

I will now briefly update on the financial performance on a quarterly and half yearly basis. These are the standalone numbers. The revenue from operations is at Rs. 1,059 crores for Q2 FY24 versus Rs. 1,010 crores for Q2 FY23, a 5% increase year on year. H1 revenue is at Rs. 2,324 crores, an 18% increase year on year. EBITDA is at Rs. 99 crores for Q2 FY24 versus Rs. 115 crores for Q2 FY23, down by 15% year on year. For H1, EBITDA is at Rs. 253 crores, a 16% increase year on year. As mentioned in the notes to the results, this quarter we have made a provision for overdue receivables of Rs. 10.5 crores for a customer to whom sale was made in the previous year. If you remove that effect, EBITDA is at Rs. 109 crores with a margin of 10.3% for the quarter. Similarly for H1, excluding the provision made, EBITDA is at Rs. 271 crores, reflecting a margin of 11.7%. Net profit is at Rs. 59 crores for Q2 FY24 versus Rs. 73 crores for Q2 FY23, a 19% decrease year on year. For H1, the net profit is at Rs. 162 crores, an 18% increase year on year. Net cash and cash equivalents at the end of the quarter Q2 FY24 was Rs. 112 crores versus Rs. 300 crores at the end of the previous quarter. This quarter, we had CAPEX that was spent on CPCB IV+ etc., and investment in inventory due to the coexisting CPCB II and CPCB IV products.

I will now give an update on working capital. This quarter started with challenges on the supply front due to the continuation of CPCB II for another 1 year, while CPCB IV+ was also introduced since the beginning of this quarter. As a result, this quarter has seen demands for both product lines, which has resulted in a complex supply chain and manufacturing situation. To meet demand and customer requirements and delivery timelines, we have made investments in stocking material that has resulted in higher inventories, which we expect to normalize over the next year as we go through this period of transition.

Now, I will take you through the business-wise standalone revenue breakup for the quarter. The B2B segment with a top line of Rs. 904 crores registered a 3% growth year on year. Of the total B2B revenue, Power Gen revenue is Rs. 360 crores, down by 8% year on year; Industrial is Rs. 235 crores, up by 5% year on year; Distribution and Aftermarket is Rs. 184 crores, up by 23% year on year; and International business is Rs. 125 crores. Our International business marked a growth of 45% versus the previous quarter and 12% year on year, while the B2C segment with a top line of Rs. 143 crores were up 19% year on year. Within B2C, the KOEL Water Management Solutions business recorded a revenue of Rs. 116 crores, up by 21% and Farm Mechanization recorded a revenue of Rs. 27 crores, up by 12% year on year. In LGM, revenue is flat at Rs. 132 crores. However, the EBITDA margin improved from almost nil in the previous year to good single digits due to better cost management, better product mix, and higher exports. The net working capital has also improved in LGM.

Now, when we look at the consolidated performance for the quarter and the first half, revenue from operations is at Rs. 1,305 crores for Q2 FY24 versus Rs. 1,228 crores for Q2 FY23, a 6% increase year on year. And for the half year, revenue from the operations is at Rs. 2,848 crores, an 18% increase year on year. Net profit is at Rs. 78 crores for Q2 FY24 versus Rs. 83 crores for Q2 FY23, a 6% decrease year on year. H1 net profit was at Rs. 204 crores, i.e., a 24% increase year on year. At Arka, the loan book for the quarter is at Rs. 4,128 crores. The revenue for the quarter is at Rs. 127 crores, registering a 52% growth year on year and segment profit is at Rs. 25 crores.

In summary, with a strong half-year performance, we are very much on track for our goal of 2X-3Y advancing satisfactorily on the 5 growth pillars. We have registered a 25.5% CAGR in the last 2 years on a base revenue at the half year of FY22 of Rs. 1,473 crores.

With that update, we will now take questions from the audience.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We'll take the first question from the line of Ashish Shah from JM financial. Please go ahead.

Ashish Shah: The first question is that obviously this quarter is a difficult quarter to judge because of the pre-buying in the previous quarter. But based on the order book and inquiry levels, would you expect, let's say, the first half kind of growth momentum to sustain in the second half as well? Or you think that's something which is still evolving, and one cannot be sure of that?

Rahul Sahai: As of now, we have a pretty strong order book; and from a platform and product standpoint, we are absolutely ready. So, we would expect the strong performance to continue in the second half.

Ashish Shah: In the first quarter, you did say that except for the impact of pre-buying, you still had a healthy, which would be +20% kind of a growth. Is that something that you saw? Because, for the quarter as such, you had seen a decline in the Power Gen segment.

Rahul Sahai: I think this is what Gauri mentioned earlier. This was a quarter of transition for us. What actually happens is that there were a lot of changes and adaptations we had to make because of the last-minute notification that came out from the government regarding the emission timelines. For example, the CPCB IV+ there was a soft postponement of that until June next year. So, I wouldn't worry necessarily too much about the order board or our execution. This quarter was more of a transition for us.

Ashish Shah: A little bit on the gross margin and the raw material cost. This quarter, at least from a sequential perspective, we have seen a fair amount of reduction in the raw material cost. Is this an outcome of the price increases or the raw material prices going down? And this level of raw material cost can be expected in the quarters to come?

Rahul Sahai: We are keeping a close eye on our margins along with the material cost. We are taking full measures to ensure that our margin is maintained. While there is a 130 basis points improvement in this quarter, I would say we are keeping a close eye on it. I can't comment on how the margin fluctuations happen in future.

Ashish Shah: Just one last thing from my side. On the exports front, are we seeing any improved traction? Because, if I look at the YoY growth, it's a little subdued. First quarter was also about 2.5%. This quarter is flattish. Do I think this year we are going to see some sizable growth in exports? Or maybe there is not so much certainty in the markets to be thinking of that?

Rahul Sahai: If you look at the results, we have actually grown substantially in this quarter versus last year in exports. But what is more important is that we have appointed an exclusive channel partner in the GCC countries; and this is happening for the first time. There is a thought process regarding go-to-market with respect to international markets, and we are committed to executing that.

Moderator: We'll take the next question from the line of Amit Shah from Antique Stock Broking. Please go ahead.

Amit Shah: My first question is, will it be possible to share the mix between the CPCB IV compliant product sales and how much is the sales of CPCB II compliant products in this particular quarter?

Rahul Sahai: I may not be in a position to give out specific numbers, but what I can tell you is that we are seeing demand from specific regions in India for CPCB IV+ owing to the local regulations. For example, if you look at NCR, there is a lot more traction that we are seeing from that area versus some of the other areas. We continue to sell our CPCB II products at a significant scale.

Amit Shah: In broad percentage terms, would it be possible to share as to what proportion of our Power Gen sales has been from the CPCB IV compliant product portfolio? Just to get a color on how the traction is moving in this particular segment.

Rahul Sahai: I don't think I can share the numbers, but what I can tell you is that this is the first quarter of CPCB IV+ and we have all the products ready. There aren't too many companies who have all the products ready and certified. So, we are seeing traction, and that traction will continue sequentially every quarter as we move into June of next year.

Amit Shah: Secondly, on the 2H outlook. In the second quarter, we saw a subdued performance given that the first quarter had witnessed a very strong pre-buying. But moving ahead, how do you see the traction in terms of sales? Do we believe that from the second half onwards, sales should revert back to the normal growth trajectory of 10% to 15% that we were witnessing earlier? Or do you believe that the overhang of the first quarter pre-buying should continue in the 3Q? And 4th quarter onwards, we might see normalcy getting back in action?

Rahul Sahai: I just wanted to make it clear that this quarter was a transition for us. It's not because we see an impact on the demand. The transition is more from getting our manufacturing lines ready along with our supply chain ready to ensure that we are able to cater to both CPCB IV+ as well as CPCB II products. It's not an indicator of the demand. Going forward, because we have gone through the entire transition in this quarter, we would expect that normalcy to come back.

Amit Shah: One more thing I wanted to understand; in this particular quarter, our employee cost has jumped up significantly. We have seen Rs. 75 crores to Rs. 76 crores kind of an employee cost in this particular quarter. If you can just share what is the reason for that and what would be the quarterly run rate going ahead, given that it's a very sharp jump on YoY basis as well as on a QoQ basis?

Rahul Sahai: We actually had increments kicking in, in this quarter. But as we move ahead and the revenue normalizes, we don't expect too much of an impact. This quarter, because there was a transition, we had increments as well as owing to the transition, we had a lower volume leverage. As a result, our conversion costs increased in this quarter, which is why you're seeing the impact. Otherwise, we expect that to normalize from the quarters going forward.

Amit Shah: This Rs. 75 crores are the quarterly run rate we should assume going ahead? Or do we believe that Rs. 65 crores to Rs. 66 crores are the right quarterly run rate on the employee cost?

Rahul Sahai: I would say the run rate would be somewhere about Rs. 70 crores.

Amit Shah: Sir, if you can share some details on the CAPEX as to the nature of the CAPEX, although in the initial opening remarks, we have highlighted that this CAPEX is related to the CPCB IV related product portfolio, but what exactly is the nature of CAPEX if you can just highlight? Because, it's a very large number; Rs. 160 crores odd. If you can just highlight as to what is this regarding and whether we have added incremental capacity lines for the manufacturing of CPCB IV? What is the nature of this CAPEX?

Rahul Sahai: All the CAPEX is actually moving into technology and engineering. If you look at it, we are in the midst of emission norm changes. So, we have CAPEX going into CPCB IV+ as well as CEV BS-V on the off-highway side as well as what you will see is there are new product launches happening. The MD spoke about the OptiPrime series that was launched. There is focus on hybridization and sustainability as well as there are new fuel types that we are working on. We have the largest range of natural gas gensets now. So, there is CAPEX going into all of these areas.

Amit Shah: Lastly, on the export; we mentioned that we have appointed a global OEM for the GCC region. How do we see this playing out? What is the kind of trajectory we can expect on the export sales going ahead? We have been highlighting on our 2X-3Y strategy that export would be almost like 25% to 30% of our revenue over the next 3 years. If you can just highlight as to this particular arrangement, how significantly it can change the trajectory of export numbers for the next couple of years?

Rahul Sahai: If you look at our product portfolio, we have a very significant portfolio on the power generation side. When we looked at international markets, one of the first few steps was how do we ensure our product portfolio on power generation is available in some of these key markets. For example, Middle East is a key market for us. What we did was, we looked at the product portfolio that we are selling in the GCC countries. We realized a lot of the focus that has historically been has been on the Industrial and firefighting side. The reason why we have appointed a genset OEM in that region is to represent the full portfolio of power generation that we have, and the GCC countries are a fairly large market for power generation. What we expect going forward is deploying a market-based specific, I would say, strategy where we are looking for able partners who can work with us to win in those markets. For example, GCC is the first step in our channel strategy. We have other markets also in mind, and we are looking for capable partners who fit into our value system. That's the way we are going about it. So, the first step is done.

Moderator: We'll take the next question from the line of Teena Virmani from Motilal Oswal Financial Services. Please go ahead.

Teena Virmani: In continuation with the previous question on the demand side, now that we are in the second half of this fiscal – basically October has gone – where do you see the demand coming more from? Whether it is coming more from CPCB II or CPCB IV+ related products? Because you mentioned that CPCB IV+ had some demand from the NCR regions and all, but there also the implementation timelines have seen a shift. So, is the market demand more dominated by CPCB II during this quarter itself or again it is going to be a mix of both?

Rahul Sahai: If you look at how the market is behaving from the beginning of this quarter until, say, June, what we are expecting to happen is that initially the demand for CPCB II will be higher. As CPCB IV+ ramps up at some point of time, maybe in the middle, there will be an equal balance. And then, CPCB IV+ sales will increase and CPCB II demand will go down. That's what we are expecting. And in line with that expectation, our CPCB II sales have been higher than CPCB IV sales in the last quarter.

Teena Virmani: Is there any impact on the pricing to pass on any kind of raw material correction to the end users, particularly on CPCB II?

Rahul Sahai: No, I don't think so. We have not seen any issue of passing on the raw material impacts or cost changes to the end consumers.

Teena Virmani: And my second question is related to a more mature state of market when it will be mostly CPCB IV lead demand, maybe let's say by June-July onwards, where would you see the scope of margin improvement for the Company and even for the industry per se, particularly for the Power Gen segment? I understand there would be price increases; there are already price increases for CPCB IV+ related products, but would gross margins have any sort of improvement even beyond the current levels?

Rahul Sahai: What we are focusing on are 3 main levers for margin enhancement. The first one is getting into white spaces such as high horsepower. Historically, we have not been present in greater than 1,500 kVA segment. And now with the launch of our OptiPrime, we have expanded that range to up to 3,000 kVA. Number #2 is growing our Service and Aftermarket business because as more electronics come in, it gives us a chance to increase our service penetration and as a result, enhance our margins because then you can get into specific kind of service levels-based contracts. And the third one is looking strategically at our international business and seeing what are the success factors in specific regions and then going to market with those specific factors. Those are the 3 areas that we are working on to increase our margins.

Teena Virmani: So, particularly for Power Gen, will there be any scope for further indigenization or further localization once we reach a matured set of markets?

Rahul Sahai: Unlike a lot of other organizations, in our case, close to about 90% of the supply chain is already localized and indigenized in India.

Teena Virmani: And remaining 10%, there is a limited scope?

Rahul Sahai: The remaining 10%, I would say, eventually we may have indigenization plans, but not in the immediate future.

Moderator: The next question is from the line of Abhijit Sinha from Pi Square Investments. Please go ahead.

Abhijit Sinha: Just wanted to understand the opportunity in this HHP segment that we are getting in. Obviously, our product portfolio increases substantially, but what kind of opportunity can we see by entering into this segment?

Rahul Sahai: The high horsepower segment is a fairly large segment with a limited number of players. I would say if you looked at the high horsepower segment, that itself would be close to about a 2000-crore annualized opportunity. With our presence there, we feel confident that we will be able to extract some of that.

Abhijit Sinha: What would be the margin differences between this HHP segment versus the segments that were already in?

Rahul Sahai: I don't think I can comment on specific margin changes, but what I can say is it would be higher than the lower KVA which is slightly the more commoditized end of the market.

Abhijit Sinha: Amongst the 3 points that you were making regarding…. One was entry into the HHP segment, one was you mentioned growing the aftermarket services. Where do we stand now? What kind of opportunity do we see over there? And same for the international business, if we could just throw some highlights regarding them.

Rahul Sahai: If you look at it, currently a lot of our customers go out of fold after the warranty period. I can't give out specific numbers on this call, but what we are trying to do is enhance our post-warranty engagement with our customers by looking at the overall service value proposition. We are looking at different response times, commitments to our customers, and also enhancing our service capabilities. There's a lot of work that's currently going on. I may not be in a position to give out specific details on this call.

Abhijit Sinha: Specifically, where do we see our exports being as a part of our revenues? Are we looking at about 20% to 30% going forward?

Rahul Sahai: Yes. On the exports side, our ambition is to get to about 30% of our revenues.

Abhijit Sinha: And that's primarily the power generation space, right?

Rahul Sahai: I would say that's a mix of both B2B and B2C. Power generation would definitely be a large part of it.

Abhijit Sinha: Sir, what's the current breakup between B2B and B2C at the moment? Is it like 80:20?

Ankur Gupta: At a consolidated level if you talk about, it's about 75% to 25% as of now.

Abhijit Sinha: Sir, talking about LGM, we mentioned that the margins have substantially improved.

Rahul Sahai: Yes, it has.

Abhijit Sinha: What's the current turnover right now, sir, in LGM segment itself? You mentioned right now it's only 30% of their total annual revenue.

Rahul Sahai: For the half year, it is around Rs. 250 crores. And for the last quarter, it is Rs. 132 crores.

Abhijit Sinha: Lastly, I just wanted to talk on the OptiPrime segment. That is going to be purely the HHP segment that we spoke about, right?

Rahul Sahai: If you look at OptiPrime and the OptiPrime Hybrid, we have launched these products across the range. But our focus is definitely on high horsepower with that.

Abhijit Sinha: And how would this new genset series be different from the ones existing?

Rahul Sahai: If you look at the product, we have engineered the product to basically provide a better cost of ownership, increase the flexibility to the customers, and also in terms of the footprint, it's a smaller footprint. So, it's a better product for the end-user application.

Abhijit Sinha: So, eventually people would start moving towards this because this is a more optimum genset, right?

Rahul Sahai: Yes, and hence the name.

Abhijit Sinha: The change in the norms from CPCB II to IV, it doesn't mean that in CPCB IV, we get higher margins also over here in these new….?

Rahul Sahai: I would say the electronic content increases substantially. So, it may not be a direct margin accretion as a result of product sales, but we will have opportunities through our services to increase our margin.

Abhijit Sinha: And all our peers have also dealt with it the same way as we have by pre-booking it in the last 2 quarters?

Rahul Sahai: All the pre-buy has happened for CPCB II.

Moderator: We'll take the next question from the line of Prolin Nandu from Goldfish Capital. Please go ahead.

Prolin Nandu: A few questions from my side. The first is that because of this delay of norms from here to June, how is the competition reacting? Because, we would have typically thought that when the norm change happens, some of the larger players like you would gain market share. Now that that thing is delayed till about June of 2024, is it fair to assume that some of the smaller players might come back with a vengeance? I am just trying to figure out how the competition or rest of the market is reacting to this delay of norms.

Rahul Sahai: I can just give you my opinion of what I have seen. Each Company has their own strategy that is at play, and we are just focused on our main track which is to support our customers. We have all our products ready and certified, and we are providing solutions across CPCB II and CPCB IV+. But different companies are following different strategies. I may not be able to comment on that specifically, but the assurance we would like to give to our customers is that we are there to support them.

Prolin Nandu: Let me put it another way. From here to June, do you expect market share gains in the overall market, or do you see some market share losses? Or do you see the market share staying where it is for us?

Rahul Sahai: I would hope for some games for sure.

Prolin Nandu: The second question would be on your Industrial segment within B2B. The last part of pre-buying, if I am not wrong, would have affected the power generation side of it. I am looking at H1 numbers; the Industrial segment has just grown by around 11% and that's lower than the overall sales of the B2B division. Do you want to call out specifically any reasons for this lower growth number?

Rahul Sahai: If you look at the Industrial business, from our expectations, the way we have looked at the mix, we are pretty much on track. Having said that, there are certain segments within the Industrial side where the demand has been lower than what we thought it would be. For example, agri being one such segment. But apart from that, we don't see the Industrial segment underperforming. It's going as per plan.

Prolin Nandu: One more question on this whole delay of norms. From here to June, as you said that maybe the inventory will normalize and working capital will also normalize, but are there any other costs related to having 2 products with us of two different norms, which can have some kind of drag over the margins? Are there any other costs related to this?

Rahul Sahai: The working capital increase that you are seeing is largely because of this being a transition quarter. And there are long lead time items that we have had to procure. But all of this will normalize going forward. I don't see any other reason.

Prolin Nandu: On your export business, you said that you are looking at the right partners and taking a different market based on the merits and based on the partnership that you find there. I just wanted to touch up on the developed market side – US and Europe. Are there similar sorts of discussions which are going on there? And is this the only route that you would like to take in the export market? Where I am coming from is that when we met a year or so back in the analysts meet, you mentioned this whole white labeling thing and then we had probably taken it off and we were no longer going to pursue that opportunity. I just wanted to understand that is this the only route of probably looking at the market, finding the right partners, appointing OEM or distributor there, or are there other routes also in export which you are exploring? And if you can just touch upon which other routes you are exploring and specifically related to opportunity in the developed market – US and Europe particularly.

Rahul Sahai: There are multiple modes of entry that we are evaluating by the market center. We have some market centers in mind. There are large power generation and engine market centers across the world. We are extremely clear about that. There are multiple modes of entry. So, what I would say is that the route that we have followed for the GCC countries may not be the only route, but what we will do is as and when we are closer to maturity in some of those conversations, we will keep coming back and updating in these calls.

Prolin Nandu: Is white labeling still on the table or is that off the table right now?

Rahul Sahai: White labeling may not be an ideal option for us. We will update in this call in case any such arrangement happens, but I would say it's definitely the least preferred option.

Prolin Nandu: Just one last suggestion. If you can give slightly more granular details on your financial services just like most of the NBFCs would be giving in terms of NIMs and NPA numbers and all, that would help to understand where that NBFC is going. This disclosure is slightly inadequate. If you can just add those kinds of details just like any other NBFC, that will help. That's it from my side.

Moderator: We'll take the next question from the line of Ashish Shah from JM Financial. Please go ahead.

Ashish Shah: Sir, within the Power Gen segment, could you highlight the key sectors which are driving the demand at this point of time where you are seeing the maximum pickup? If you can throw some light on that.

Rahul Sahai: We are seeing a lot of demand up-tick happening from infrastructure. There is a lot of interest from data centers as well. I would say those are the 2 big segments for us. Of course, there is growth that we are seeing from smaller segments as well. But I would say those would be the 2 big segments.

Ashish Shah: Data centers would typically need gensets above 1,500 kVA. Am I right in saying that?

Rahul Sahai: A lot of times, yes. But we have executed orders right from 500 kVA upwards.

Ashish Shah: So, you would say that these are the 2 areas which are driving the bulk of the demand at this point of time. Secondly, on the industrial side, you did allude to some emission norms change which is in the construction segment. Any more color on that in terms of the timeline and how significant is this business as a proportion of, let's say, our Industrial segment? And what is the preparedness to meet the new equipment which will be needed?

Rahul Sahai: The emission norm that we are talking about is CEV BS-V. What we are hearing through ICEMA and some of the other bodies is that there could be a potential change or delay in the norms. But what we are currently focused on is to ensure that our OEMs win in the market, and we are working very closely with them. There were timelines around proto builds that we had commitments on with our OEMs, and we are focused on executing that. So, there is a possibility that we may see pre-buy kicking in for the CEV BS-IV products in the last quarter of this financial year unless something changes in the notification. We are keeping our eyes and ears open to just keep an eye out on that.

Gauri Kirloskar: But as of now, the deadline is April of FY24.

Rahul Sahai: How significant part of our segment gets impacted by this particular transition? Just to get some sense of proportion.

Rahul Sahai: What I would say is that if you look at our construction segment, we do roughly around Rs. 400 crores to Rs. 450 odd crores. And this change will impact a large chunk of it.

Rahul Sahai: Sir, my last question is actually on the lines of what the previous participant asked. If we could share at this point in the call any breakup of the loan book in terms of the segments or the end sectors where the exposure is and also any numbers on the gross or net NPAs that we could share here?

Gauri Kirloskar: Out of the total loan book which is Rs. 4,033 crores, we have about Rs. 1,300 crores that is going to wholesale lending, about Rs. 1,200 crores that's going towards real estate lending & urban infra, and about Rs. 1,500 crores to SME & MSME.

Amit Gupta: Just to reconfirm the numbers that Gauri ma'am has suggested, only 1 sub-bifurcation. Rs. 1,200 crores is not totally to RE & urban infra. Out of that, Rs. 932 crores only towards the real estate developer and the balance is towards the warehousing, logistics, and other parts of the infrastructure industry. All put together, Rs. 4,033 crores the total loan book as on 30th September 2023.

In terms of GNPA, we are only at 0.19% of GNPA in the entire loan book. At NNPA, we are at 0.05%.

Rahul Sahai: Just one small additional piece of detail. When we say Rs. 1,500 crores is to SME and MSME, which would be these sectors primarily? Or is it too diversified to call out?

Amit Gupta: It is diversified in terms of a variety of industries and in terms of a product also, it is highly diversified into 2 to 3 different segments.

Rahul Sahai: Can you just highlight these segments, please?

Amit Gupta: Basically, it includes the manufacturers or the traders who are the SMEs. They own these Udyam registration certificates, they have their own premises, they have been running the business. The entire money goes out for the business purpose only. We have been also doing a little bit of digital lending where we have already got tied up with 3 or 4 channel partners and the entire STP process is being set wherein they are sourcing cases for us, and basis our credit parameters and credit norms, we have been disbursing those cases. This is the one segment where we have been disbursing to the individuals for their personal consumption, maybe for education purpose, maybe for consumer durables or any other purpose. And another very small book comprises also of a supply chain, which is at almost in a single digit number kind of a thing in crores.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Amit Shah from Antique Stock Broking for his closing remarks. Over to you, Mr. Shah.

Amit Shah: I would like to thank all the participants for joining the call. I would also like to thank the management for giving us the opportunity to host the call. I would request the management to provide us with the closing remarks post which we can conclude the call. Over to you, ma'am.

Gauri Kirloskar: I just wanted to say thank you very much for your interest in the Company.

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