"Kirloskar Oil Engines Limited
Q2 FY 2022 Post Results Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Kirloskar Oil Engines Limited Q2 FY2022 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode, 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Shah from Antique Stock Broking. Thank you and over to you, Sir!

Amit Shah: Thank you Malika. Good afternoon, everyone. On behalf of Antique Stock Broking Limited, I welcome you all to Q2 FY2022 Post Results Earnings Conference Call of Kirloskar Oil Engines Limited. Today we have with us from the management Mr. Sanjeev Nimkar – MD and Mr. Pawan Agarwal – CFO of the company. I now hand over the call to Mr. Nimkar, who will address the session earlier and then we can open the floor for question-and-answer. Over to you, Sir!

Pawan Agarwal: Thanks Amit. This is Pawan Agarwal. I will do the opening remarks and then both Sanjeev and I can handle the question and answers. Thanks everybody for joining the call today I am Pawan Agarwal, The chief Finance Officer of the Company. Present with me on this call are, our Managing Director, Mr. Sanjeev Nimkar and our Company Secretary Mrs. Smita Raichurkar. Our two other colleagues have also joined this call but from different locations Mr. Rahul Prabhudesai who heads the Strategy and New businesses at KOEL has joined this call from his residence in Pune and Mr. Amit Gupta who leads Corporate Finance Function at our subsidiary ARKA Fincap Limited, has joined this call from Bombay.

At the outset let me first wish you belated Dussehra and early wishes for Dipawali, I hope you and your near dear ones are safe and keeping well. At KOEL we have conducted COVID vaccination drive at all our locations and a large portion of our workforce almost 95% to 98% has already been vaccinated. We continue to take precautions like wearing marks and regular sanitization while continuing with our day-to-day operations.

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

Let me now start with our sales highlights, sales for the quarter grew by 25% year-on-year from Rs.655 Crores in Q2 of last year to Rs.818 Crores in this quarter. Further division wise split and other details for the sales are captured in the presentation already uploaded on the website.

Now, I will talk about the standalone performance of KOEL followed by an update on major subsidiaries and summing it up with consolidated performance. On a half-yearly basis the sales grew by 50% from Rs.970 Crores in H1 last financial year to Rs.1457 Crores in H1 this year.

EBITDA at Rs.115 Crores against Rs.72 Crores for H1 in the last financial year registered a 60% growth year-on-year basis, this results into H1 FY2022 EBITDA margin of 7.8% versus 7.4% for the same period in the last financial year, steep increases in the prices of raw material over the last few quarters continues to put pressure on the margins of the company. Unfortunately, in our assessment this commodity input cost pressure is unlikely to subside in the near term.

Lastly, the net profit for H1 FY2022 was at Rs.63.2 Crores registering a 73% growth year-on-year basis. Though this performance is against the lower base of pandemic hit H1 last year we believe our consistent efforts to grow the topline and prudent cost control measures have helped us deliver these numbers. We would continue with our efforts to protect the margins while growing the topline despite the ongoing commodity price rise and other supply chain constraints.

Now, coming to the working capital updates, our inventory levels were at 46 days, receivables of 35 days and payables of 66 days, with this we continue to maintain a healthy working capital cycle.

Moving on to subsidiaries following our some of the key highlights-

Sales of Rs.270 Crores in the first half of current financial year at La-Gajjar Machineries Private limited, in short LGM registered nearly 18% growth compared to H1 of last financial year on a standalone basis. Other than government supplies all other business segments such as retail, exports, OEM witnessed healthy sales growth during H1. The steep increase in commodity input cost impacted the margins at LGM also as we could not pass on the entire input cost increase to the market. I am happy to inform you that on the auspicious day of Dussehra which is 15th October 2021 we have commenced our project of constructing the state-of-the-art manufacturing facility at the outskirts of Ahmedabad Gujarat.

This is a Greenfield project which will consolidate the existing manufacturing units of LGM and will enhance its manufacturing capacity and capability. We expect the new factory to be operational in the next 12 to 15 months time.

Our recently formed step down subsidiary Optiqua Pipes and Electricals Private Limited. started commercial operations in May 2021 and a good response from the market was noticed in Q2 for its various products such as wires, cables, column pipes and pumps.

We are expecting about Rs.40 Crores to Rs.50 Crores turnover in Optiqua in the current financial year and we believe that EBITDA margins for Optiqua will stabilize at around 4% - 5% as we go along in next few quarters.

Optiqua also entered into a joint venture with ESVA Pumps India Limited, by making an equity investment of Rs.4.41 Crores thereby obtaining 49% stake in the company on 4th October 2021.

As you are aware Optiqua was formed with a view to expanding our product offerings in allied category. And wires, cables, column pipes, electric motor driven pumps etc., are some of the products which would likely serve the above stated objective. We will further strengthen our product portfolio under the allied category in future. With the ESVA JV formation we are not only securitizing the supplies of mini monoblock pumps which is one of the growth engines for the Water Management Solution Division of KOEL, but also adding on the manufacturing capabilities in this domain.

Kirloskar America Corporation (KAC) our US based subsidiary registered a sales growth of 57% year-on-year in H1. Sales at KAC grew from Rs.10.7 Crores in H1 last year to Rs.16.8 Crores in H1 of the current financial year.

Another update is on financial services business, during second quarter we have formed a wholly owned subsidiary ARKA Financial Holding Private limited. The idea behind forming this subsidiary is to consolidate and bring the entire financial services business under one umbrella. This structure will help us sharpen our focus on building the financial services business.

KOEL has infused Rs.83.01 Crores in ARKA Financial Holdings Private Limited (AFHPL), as share capital in Q2 of current financial year. AFHPL in turn has infused Rs.80 Crores of equity share capital in ARKA Fincap Limited (AFL). With the above capital infusion KOEL now holds 100% and 90.21% equity stake in AFHPL and AFL respectively. The remaining 9.79% equity stake of AFL is held by AFHPL.

RBI on 14th October 2021 granted its approval to AFL for transfer of control in favor of AFHPL. In line with this approval as a next step there will be shareholding realignment at AFL whereby KOEL will cease to hold direct equity stake in AFL but it will indirectly control AFL through its 100% subsidiary AFHPL.

The above-mentioned realignment of structure of financial services business will open up many doors for future growth and expansion of this business segment at KOEL. As informed earlier the total capital commitment of KOEL towards financial services business continues to be capped at Rs.1000 Crores out of which as on date approximately Rs.701 Crores in invested in AFL and Rs.83 Crores in AFHPL. The key highlights of the financial performance of ARKA Fincap Limited can be seen in the Q2 earnings call presentation already uploaded on the website of the company.

As far as consolidated performance is concerned here are the key pointers; Sales grew at 46% year-on-year in H1 at Rs.1801 Crores against approximately Rs.1233 Crores during H1 of last year. EBITDA at Rs181 Crores against Rs.119 Crores for H1 of last year, registering a growth of 52% year-on-year. H1 FY2022 margins stood at 9.9% versus 9.5% for the same period in the last financial year and net profit for H1 FY2022 was at Rs.74 Crores 40% growth year-on-year basis.

Now a quick update on various businesses:

On the power generation side we have been gaining a good traction from healthcare infrastructure segment. This quarter we have seen some good bulk order booking in this business. We continue to focus on these promising sectors for strengthening our portfolio further.

Industrial business however witnessed some impact in the quarter due to shortages in supply of semiconductors resulting into postponement of some of the sales despite that we have delivered a 13% growth in second quarter year-on-year basis in this business division. The transition from BS III to BS IV has been quite smooth as expected. We are receiving positive and encouraging feedback from our various OEMs on BS IV compliance engines supplied by us.

On the farm mechanization side our weeders are being well received in the market. We have strengthened our product portfolio in this business with the recent launch of petrol weeders. Weeders unlike power tillers are not sold to farmers against government subsidy. So in that case we expect a better margin profile in this product category going forward. With this addition we now have a full range of product portfolio both in terms of horse power and fuel options.

On the institutional and project business what we call large engine business we have proven track record in Defense and Marine segment. We continue to strengthen our footprint in this domain. We have had a good breakthrough in some of the key projects for our key clienteles during this quarter which fetched us new orders in excess of Rs.50 Crores in Q2. The project business by its nature, is a long executional cycle business and therefore our strong on hand order book of approximately Rs.150 Crores will help us deliver good numbers in coming quarters in this business.

Now, on the new product development side the following are some of the updates; as you know we launched Kirloskar iLand early September 2021. This is an organic waste composter., i.e. OWC solution. It has attracted respectable number of enquiries from the market. We have started providing the OWC solution against these orders received from customers. The early signs are quite encouraging. We expect to see good traction in this segment in coming quarters. We have also launched induction motors under "Varuna" brand at LGM recently. We are in the process of launching similar motors in KOEL over the next few months. Our R&D efforts are continuing on the higher CDA engines as mentioned in the earning calls. Additionally the development of gas based gensets also progressing satisfactorily, and we will soon announce its launch hopefully in coming few quarters. With this we come to an end of the update we may now commence the question-and-answer session. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question is from the line of Rohan an individual Investor. Please go ahead.

Rohan: In our NBFC business the investment is nearly of Rs.750 Crores and the gross profit of this you have mentioned as Rs.100 Crores. I want to understand that if nearly you show Rs.27 Crores or Rs.30 Crores and expenditure on salary is at Rs.60 Crores to Rs.70 Crores, how much will it be worth to investors money where the cash reserves of Rs.1000 Crores in Kirloskar Oil cash flow which was pumped in NBFC is that beneficial for future and GDP of India stands at 1.3 trillion or 3 trillion which has come in ten years and Kirloskar Oil net profits is every time still stands at Rs.160 Crores for the last ten year and now it is the same. Why the company's growth is at standstill and the second question is on NBFC where the net profit is so low it is better to purchase government bonds where we can register more profits or investing Coal India we can get better dividends from this. So, spending on salaries so much and where the profit of income is not to expectations then I think that investor's money to invest in such business where that is experimental. NBFC, I do not feel that there is any experimental move. I would want to understand about this from you? It would be nice if you can give the answer in Hindi or in Marathi, it would be very good, as I am very comfortable in that because the place where I live in Khadki bazaar, near that only Kirloskar Company which is from 1942. It is hardly 50 to 60 meters. I have known this company from the ages of my father, grandfather, and we have seen this company. We know this company very nicely so because of this dispute profit is getting less or wrong investment in other business; it is coming, why is it coming. This, I need and all the other investors need to know it.

Amit Gupta: Rohan Ji, your questions is about NBFC profits we are showing and the salary expenses are at what. Fist I would like to make it clear that the start of this business was nearly two year to two and a half years back and to grow any business it requires some time. Especially, if you speak about the financial market for the last two year – three years the financial market was little patchy even if you look at that also where other NBFCs might have registered loss I cannot name them, but ARKA Fincap Limited, in this tough market has made an appreciable book and market being challenging also year-on-year profit has been delivered by Kirloskar. If you speak about the last six months, we have delivered Rs.15.3 Crores of profits which is almost close to the last year profit. In the last year the company delivered a profit of 16.8%.

Rohan: What is the invested amount and against that what is the profit, if you could give us some color on that?

Amit Gupta: Last year the capital infusion was nearly Rs.600 Crores to Rs.750 Crores and this year we have invested and additional Rs.130 Crores.

Rohan: Only 2% growth?

Amit Gupta: I am coming to the same point. One thing is that investment point of view and the second thing is long-term business planning point of view. The investments you are saying from government bonds or Coal India where in from there we can get only consistent returns is expected.

Rohan: Sir, we will get 9% fixed interest rate. I wanted to understand that I am also an investor and our family is for the last 140 years are in business and investments. When any new business we start we need to have a portion of margin where I can get a fixed income from that for a minimum, maximum the sky is the limit but minimum my criteria should be there. Our basic info or basic thinking is that I am not going below this margin whatever the loss I take from that. From this NBFC what we are seeing in this 2% profits is not acceptable whatever maybe the expenses if you spend on salary part we are not seeing the growth against the same. So, who is drawing the salary either he is not working or the investors money is being wrongly invested it has to be changed, this is my motto not otherwise?

Amit Gupta: Sir, I am trying to explain the same that in a new setup company the employees they join immediately the company cannot register profits, it requires some years. But still you insist the profits to be seen.

Rohan: But still it is not an engineering sector this is NBFC business that is why I raised this query on this. You have to lend in this business there is margins fixed in this to minimum and maximum. There is no new statistics find some good customers who are not defaulter and finance them. If you could find good customers you should invest which gives you 9% - 10% per year returns, if that is the case. If you are able to track the customers with your basic criteria is in track, if the investment is of Rs.100/- you need not invest Rs.100 but in the first trial the investment is Rs.10 I would request remaining you can keep in reserve fund where you can get maximum dividend from such business. This is my request, I would listen to your part I would not disturb you?

Amit Gupta: Your point is well taken, but as RBI issues license then there are different categories of NBFCs. Our NBFC is not an investment NBFC and we are loan NBFC. While our funds are not utilized till then and we cannot allot limited space whereas we are not able to place 9% - 10% on any papers there are RBI restrictions for that and some company internal policies that considering the same the investors' money is invested in proper avenue so that our utilization at that point in time we switch the money from there into proper avenue. In the initial whenever an NBFC is set up or any new business I always try to explain that initial days there is some profitability or there may be some impact but if you look at the business in long-term view point and business point of view the growth opportunity in NBFC sector is enormous. This business if carried in hurry then lot of the other NBFCs have faced downfalls I cannot name them in this call, but we have seen that many of the NBFCs have faced problems. Our company in the last two year – two and half year not a single issue is faced and the loan book this company has is Rs.1600 Crores, today the company has around 20 lenders – 22 lenders are with and Rs.1000 Crores borrowing has happened and the balance sheet of the company during tough time has shown such a good growth.

Rohan: Cannot call it as tough time if you look at the other company, I also would not like to name them, but as one of the names I spelled just that you also know that company when they started what was their position and now where they are. I just wanted to understand that whatever has happened we cannot change it but what is going to happen can we have some information about next investment from our NBFC is going to be and how that is chalked out and who are our major vendors, who is been sanctioned the loan. What are the future plans by the company to investors and companies so as to get maximum returns, if in short you could detail all the investors about the plans so that during the next quarter results whatever is your projections, we can get to understand that how much is the work done by the company?

Amit Gupta: I would like to answer to your two points – three points, whatever the company is disbursing the loans in which different segments i.e one is corporate segment and the second is builders allied activities segment and the third is retail and SME segment. In these some of the borrowers are namely Birla Capitals Group, Hero Solar Energy, Jindal Group and the others like Hero Group adding to these many good builders' groups who are with us and also the SME, MSME are there where they get small ticket size loan for them, we disburse loan against property also we do digital lending. There are varieties of buckets are there and in terms of if I tell you about the future the company as far as we are concerned the company is going in right trajectory in this market and the long-term growth that we have estimated going forward there will be granular loan book and in terms of profitability or return that you are talking about is seen as very healthy return as compared to market. In the next one year or two years you can see these figures appearing. I can tell only this as to you this business of keeping patience and in this business if we go in a hurry then in the future there will be problems.

Rohan: Thank you.

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

Amit Shah: Thanks for the opportunity. Firstly, wanted to understand on the gross margins we have seen some bit of compression in this particular quarter and if I recall during the last quarterly concall you had mentioned that we have taken some price hike in the month of July and August which will be passed on and the margins will revert back to normalcy. If you can just help us understand what has led to a sharp gross margin compression. I understand there has been significant commodity price increase but if you can just help us understand when can we see normal gross margin returning back and how much time it will take?

Pawan Agarwal: You are right. As we have been informing on the earlier calls also there has been steep increases in commodity input prices and it has impacted various businesses within Kirloskar Oil Engines Ltd. As compared to last quarter if you see the material margin is impacted by about 40 basis points. Within KOEL, we have power generation, industrial, customer support, Agriculture, large gen, etc., so in different businesses different approaches we have adopted in Q2 we have taken price increase again in some of the businesses and the cost increase has been accommodated to a large extent; still you could see about half a percentage point impact in the current quarter. Going forward looking at the markets the commodity prices are likely to continue to remain volatile and as per our understanding and initial assessment it is going to take some time before the margins go back to the earlier levels. It is not going to happen very soon. That is what our assessment is, it is very difficult to put a number at this point of time, looking at the external environment, but it is a difficult environment right now.

Amit Shah: Do we have any threshold margin that we keep in mind, or do you feel that around the current levels of this 35% gross margin could stabilize at least in the near future and then from next year onwards the price hike kicks in, and gross margin starts improving?

Sanjeev Nimkar: Amit, whatever levels you are saying in this quarter you can see this has bottomed out it is only going to stay here or improve further on that side. What is happening last two three quarters is we are playing kind of catch up game because commodities are continuously going up in this last six months three times in power generation, we have pushed the prices up in the market, two times in industrial, three times in water management solutions, but still it is catching up because by the time you implement it you are seeing the commodities are further moved up that is what has happened. But we are watching very carefully and there is ultimate limit as to how much we can push up on the front-end side. We have also initiated quite a few programs in each of the BUs to look at further cost cutting and very intense cost cutting programs, so we have initiated that, and if we get one quarter of where a commodity stabilization, I am not saying commodity decline and in that quarter if you push the prices up by little percentage that will be the quarter where you see the upliftment starting. But I do not know whether it will happen in Q3, or it will happen in Q4. But whatever you are seeing right now by all our assessment that in the last sequence it will be only better than this.

Amit Shah: One more thing I just wanted to understand you mentioned that you have taken multiple price hikes so at a broad portfolio level what is the average price hike that we have taken YTD, and have we seen any impact on the volume because of the price hike that we have taken?

Pawan Agarwal: Business to business it is different, in water management solution our overall price hikes in the range of 16% to 17% and it is the highest one we have taken in the last nine months or so and if you look at power generation side it may be at least 6%, industrial around similar 6% or 7%.

Amit Shah: Any volume impact we are seeing demand?

Sanjeev Nimkar: We had reached to a level where we had no time to think about volume impact. We said we are leaders there is a complete fire on the back-end side of commodity market, we had to take this call and as a leader we took that call. We were anticipating that some hiccups happening but fortunately in every segment, power generation segment, the healthcare sector came very handy for us, and we continued to gain healthy order book and execution because of our prowess in supply chain management so, that helped us. In industrial domain the BS IV momentum caught up and that helped us. In water management side we had good amount of stocks with us so those stocks helped us to carry on the market in not even any segment we have lost any market share in fact some of the segments we must have gained only.

Amit Shah: This is really helpful. I will get back in the queue for further questions. Thanks a lot.

Moderator: Thank you. The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kagalkar: You mentioned that you have not lost market share anywhere, but one of the MNC peers did announce a large order for the data center segment. Is that a segment where MNC players have a natural advantage and secondly over a period of next three months to six months the key product the electronics procurement strategy and now what is the latest deadline for the CPVC now?

Sanjeev Nimkar: The first question you talked about the data center and in the last call also I replied to one of the queries on the data center side, I do not know whether to call it a word fortunately or unfortunately but, the market has been shifting continuously on an upward side. Three years back the data centers in India were consuming 750 to 1500 kind of a range largely and then some to two megawatt and 2.5-megawatt kind of thing. If you look at last eighteen months window two megawatt plus requirement of data centers have sharply gone up. Of course, they do buy 750 to 1500 we have entertained some of the data center in queries or orders we have installed that but our share right now in data center domain is not that high at the moment because of the range limitation but we are working out on that and as Pawan was talking about in his opening remarks, very shortly we will be offering 1250 and 1500 to the market. That is in the last stage of our finalization plans. With that our ability to address data center we will be few shades better than what it is today. So that is the answer to the first thing. Second point you talked about supposed to be four transitions as we are talking about our latest estimation is July 1, 2023 that will be the effective date and happy to share with you people that as an organization, we are fully geared to manage this transition for all the models whatever is required because of our very successful transition of BS IV that work what we have done on BS IV 70% - 75% of that work is coming extremely handy for us for CPCB IV transition as well.

Bhagyesh Kagalkar: You do not foresee any component shortage or any chip shortage or whatever?

Sanjeev Nimkar: That was you third query. The component shortage like you are tracking the market and all of us are seeing what is happening in global market, so semiconductors' situation is impacting but in fact if we are looking at July 1, 2023 by all estimation right now the market will be stabilized by that time, semiconductor market globally will be stabilized. Right now, people's anticipation is next three quarters can be traumatic for the chips regulated markets, but I am talking about eighteen months from now by that time it will reasonably stable.

Bhagyesh Kagalkar: Thanks a lot, all the best.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Thank you for the opportunity. My first question is a clarification, in the opening remarks Pawan mentioned about reorganization of ARKA Fincap and wherein Pawan mentioned 90% holding of AFHPL but the presentation mentions the holding is 100%. Could you help us understand the reorganization in the stakes? Please.

Amit Gupta: Bhavin, to explain the structure we have started this incorporated ARKA Financial Holdings Private Limited as a CIC for its financial services business. Currently KOELholds 90.2% directly and 9.8% indirectly by way of investments through ARKA Financial Holdings Private Limited. The money invested by KOEL into ARKA Financial Holdings is also ultimately invested into ARKA Fincap Limited. So, KOEL ultimately holds the 100%, 90.2% directly 9.8% indirectly. Going forward what Pawan Ji has said in the beginning of the call the existing holding of shares of ARKA Fincap Limited in the books of KOEL will be transferred to ARKA Financial Holdings Private Limited so that KOEL will ultimately hold 100% of ARKA Fincap Limited through its subsidiary ARKA Financial Holding Private Limited.

Bhavin Vithlani: That helps. The second question is if you could help us understand what the tractor engines business was and with the reorganization of Swaraj Engines holding what could be the impact on the total business?

Sanjeev Nimkar: Can you repeat the question please?

Bhavin Vithlani: KOEL actually had a holding in Swaraj engines and there was a supply of engines for tractors to that entity with that stake having been sold how is that impact going to be on KOEL?

Sanjeev Nimkar: Just a clarification to you KOEL never had a share with Swaraj. It was different sister concern of Kirloskar group or Kirloskar Industries. So, that company had some stakes with Swaraj Engines that is their decision to sell or keep or whatever it is that is independent decision of that organization nothing to do with KOEL. That is the first clarity. Second, this year throughout we have been supplying good quantities to Swaraj and Swaraj buying from KOEL is a strategic tie up for them, it is derisking of some percentage of engines coming from a different place that works strategically for them and we are cost competitive also extremely reliable supplier and our steadfast with Swaraj is 99.8% so that is the quality which we are giving. This relationship will continue, and I do not see any linkages between the two.

Bhavin Vithlani: On the industrial engine side X of the tractors what could be the growth in the other segments if you could help understand?

Sanjeev Nimkar: On the industrial engine side as Pawan also briefed in his opening remarks that last two quarters we have been doing very well our BS IV transition has really moved beyond our own expectation. The products are stabilized more than 1500 engines we have supplied into that domain and those are moving through different OEMs to the market. We have proven once again our prowess of giving extremely cost competitive and our OEM friendly solution because when our OEMs have taken our solutions, they did not have to do any changes in the envelope size of their equipment. That was a big value addition we provided, and we managed all the initial norms within that boundary conditions and our product support. So, that gave us a good traction this quarter and I hope this will continue this quarter and the next quarter also infrastructure demand is going on, so these products are very high in demand. Apart from that the other earth moving equipments are also moving well. So, overall demand on the industrial price right now I am seeing is in higher teens and these both quarters may remain similar.

Bhavin Vithlani: Lastly, just one request, on the consolidated basis having an NBFC kind of clutters and as we have a subsidiary on the industrial side, if you could give a financial, P&L and balance sheet for the consolidated industrial business along with a La-Gajjar that will be very useful to understand the true value of the industrial business. That is, it from my side.

Sanjeev Nimkar: Thanks, Bhavin for this suggestion. We will look into it.

Moderator: Thank you. The next question is from the line of Sandeep an individual Investor. Please go ahead.

Sandeep: My question is on the draft bill that Power Minister which recently came up in the last day of this quarter. Will that have any impact on a diesel genset business, will that have any material impact on that, and I had a couple of question on ARKA Fincap maybe I would ask after this?

Sanjeev Nimkar: Coming to your query on draft communication or draft bill of Power Ministry which was in circulation and now nothing more has happened on that. We have approached this in multiple ways but coming straight to your question, will it have a material impact, perceptually yes, factually on ground close to nil because whatever is proposed in that bill in all our wildest imagination or implementation of any one of those suggestions on ground is practically impossible whether that renewable energy solution to be applied in small houses here and there or in two years complete transition or something we felt it was too early or whatever in practical that is our opinion .We have put communications back to the ministry through our IDEMA body so that is a common forum of diesel engine manufacturers association, so that team collectively is representing to the Power Ministry as well as Environment Ministry as well CPCB and ARAI whichever bodies are involved into that it is that way. But at this point in time perpetually it makes some impact in terms of steering the minds of some of the customers but when they realize that it is not practical right now it stays at that level.

Sandeep: Please give proper disclosures whenever needed because it has an impact that was my point.

Sanjeev Nimkar: It is at draft level, it has not become a bill and the representative of industry has already sent letter on the same.

Sandeep: What I have seen from the Kirloskar Group in the past is like we give time to time basis disclosure. So, even if you change that logo last to last month in last quarter, we had given disclosure Kirloskar Limitless and those things. So, if the bill is going to have material impact it is better to give disclosures in hand that will help the shareholders. This is w I am trying to say.

Sanjeev Nimkar: Agreed, once we feel there will be a material impact, we will do the needful right now our assessment says it will not have material impact.

Sandeep: Coming back to the Fincap question what is the average cost of capital the funds that we have taken and every Rs.100 Crores of disbursement in ARKA Fincap what is the non-finance cost increase any numbers that we can put?

Amit Gupta: I am not able to get your question Sandeep. I can give you a brief break up that we have been working on a 3.5% kind of a spread and then we are maintaining a ROA of 1.9% on the total on the total AUM.

Sandeep: The first question like average cost of capital?

Amit Gupta: Average cost of borrowed funding for ARKA Fincap latest is coming in the range of 8% to 8.5% whatever marginally we are borrowing.

Sandeep: Thank you.

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

Amit Shah: Just going bit back to the draft Ministry of Powers regulations which has come out draft bill, I wanted to understand in case if this particular bill gets passed of banning diesel genset over a period of five years do we have any strategy to do a tie up and provide an alternative offer better back storage. Any thought process on that that will be helpful?

Sanjeev Nimkar: Amit, irrespective of the bill our strategies are in place because we are a large organization, and we have a separate wing with us which has to continuously think about what the alternates are available with customer and what can we do about it. So, we are very happy to inform you even if this bill gets passed tomorrow morning, we will have sufficient alternates available for our customers in terms of backup power whether it will be battery based or it will be renewable based or it will be gas based multiple options are available with us.

Amit Shah: This will be all in-house technology or we have entered into a JV or a technology tie up with a foreign partner?

Sanjeev Nimkar: No, we will have a combination of things, some of the technologies we have already developed on our own internally and some of the things we are in discussions with people who have travelled some distance in that direction. So, we do not want to reinvent that thing we will have necessary tie ups whether in something in back-end side or something in front end side.

Amit Shah: Sure, I will get back in the queue.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for their closing comments.

Pawan Agarwal: Thank you so much. These are difficult times, but KOEL as it has been managing the last one and a half years, will continue to handle this situation graciously and we once again thank you for taking interest in Kirloskar Oil Engine Limited. Thank you.

Moderator: Thank you very many members of the management. 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.

Note: Some portions of the Earnings call which were in Hindi language have been translated into English in this Transcript. Translations in this transcript are done by the third party translators. While reasonable efforts are made to provide accurate translations, portions translated reflect the gist of the speech. No liability is assumed by the company for any errors, omissions, or ambiguities in the translations provided. Any person or entity that relies on translated content does so at their own risk. The Company shall not be liable for any losses caused by reliance on the accuracy or reliability of translated information.