"Kirloskar Oil Engines Limited Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Kirloskar Oil Engines Limited Q3 FY2021 Earnings Conference Call hosted by Axis Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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. Vaibhav Saboo. Thank you, and over to you, Sir!

Vaibhav Saboo: Thank you so much, Tanvi, and good evening, everyone. On behalf of Axis Capital, we are pleased to host the management of Kirloskar Oil Engines for the Q3 FY2021 results. From the management, we have Mr. Sanjeev Nimkar, the Managing Director; and Mr. Pawan Agarwal, the Chief Financial Officer. Over to you, sir.

Pawan Kumar Agarwal: Thanks, Vaibhav. Thank you, everybody for joining the quarter 3 FY2021 earnings call of Kirloskar Oil Engines Limited today. I am Pawan Agarwal, the Chief Financial Officer of the company. Present with me on this call are our Managing Director, Mr. Sanjeev Nimkar; and our Company Secretary, Mrs. Smita Raichurkar. First of all, we wish you and your dear ones great and safe 2021. We hope and wish everyone, and their family members and colleagues are safe during this pandemic. We wish to start by qualifying that during the call, we may make some forward-looking statements. These statements are considering the business environment as we see today and therefore, there could be risks and uncertainties that could cause actual results to vary materially from what we are discussing on the call today and we would not always be able to update on these forward-looking statements. Safety of our employees and fulfilling our promises to our customer continue to remain our top priority in quarter 3. The business continued to stage an encouraging recovery and has almost scaled up to last year's pre-COVID levels. On a sequential basis, we have seen business normalcy getting restored in quarter 3. We have started quarter 4 also on a positive note. As of now, we are witnessing healthy growth across our business segments. We are pleased to report that quarter 3 FY2021 has been one of the best quarters of the company, driven by strong operating and financial performance. KOEL has done well in quarter 3, both on a sequential as well as year-on-year basis in terms of top line and bottom line. Despite COVID, we have maintained business momentum gained over the last quarter and look forward to sustaining this performance as we go along.

Now I will briefly touch upon the financial performance of the company. On a stand-alone basis, the total revenue from operations for the third quarter stood close to Rs.798 Crores, against Rs.721 Crores in Q3 of the previous financial year. Total income of Rs.804 Crores for the quarter was about 10.5% higher compared to Rs.728 Crores for the same period in previous financial year. Except power generation and large engine business divisions, most of our other businesses have delivered growth in quarter 3 on a year-on-year basis. We had informed you in our earlier earnings calls that KOEL had embarked upon a cost optimization exercise, which was made effective from quarter 1 FY2021 itself, much before the impact of pandemic was fully understood. We were able to implement quite a few measures in quarter 1 itself. The impact of those is flowing through into quarter 2, quarter 3 and also will flow in quarter 4 as well to some extent. However, as we scale back to normal levels, some of these costs will get course corrected in line with the normal scale of business operations. Maintaining costs at this level is very difficult in the next financial year because 2020 was a radically different year. It was not a normal year. So whatever cost savings we could make on the other expenses and employee costs may not be possible in the next financial year. Having said that, we will continue to focus on maintaining and improving margins, prudent management of operating costs and working capital in order to improve the financial performance going forward. On EBITDA, which is excluding other income, for quarter 3 stood at nearly Rs.94 Crores compared to comparable Rs.56 Crores in quarter 3 of last year, an impressive 68% growth year-on-year basis. The company delivered PAT of approximately Rs.61 Crores s in quarter 3 versus nearly Rs.43 Crores during the same period in previous financial year. Operating cash flows continue to remain robust in quarter 3, which further strengthened the company's fiscal health during the quarter. Rs.177 Crores was generated from operations in the third quarter of the current year vis-à-vis Rs.70 Crores in the same period last financial year. This is net of advanced tax. Looking at the uncertainty in the economic environment caused by spread of pandemic and as a measure of abundant caution to augment liquidity, during quarter 3, we once again raised Rs.100 Crores through issuance of commercial papers. These CPs have been redeemed in full on February 2, 2021. Operating cash flow grew significantly given our consistent focus on liquidity, cash management and strong collections in the current year. Our cash generation from operations was at Rs.375 Crores during the 9 months period ended December 2020 compared to just Rs.86 Crores in the same period last year, net of tax again. During the second quarter, the company has invested Rs.45.39 Crores towards share capital in its 100% subsidiary, Arka Fin cap Limited by subscribing to the rights issue. As on December 31, 2020, the total investment made by KOEL in its subsidiary, Arka Fin cap, stands at nearly Rs.572 Crores. At a consolidated level, the revenue from operations was Rs.959 Crores in quarter 3 of FY2021 compared to approximately Rs.835 Crores in quarter 3 of FY2020, registering a growth of nearly 15%. Total income for the quarter improved from Rs.843 Crores in the previous year to Rs.966 Crores in the third quarter of the current financial year. Profit before tax for the quarter at consolidated level was a little over Rs.91 Crores as against Rs.51 Crores in the same period previous financial year. At a group level, profit after tax for the quarter was Rs.66.5 Crores compared to Rs.46.4 Crores in quarter 3 of the previous financial. At the segment level during quarter 3, the engine segment grew by 5.5%, electric pump segment grew nearly 40% and other segment, which typically includes farm mechanization and tractor spare parts and oil businesses, grew by 88% on a year-on-year basis. As far as outlook is concerned, we are focusing on exiting FY2021 on a modest note. As you would have noticed across many industries, the commodity prices, including casting, steel, copper, aluminum, etc., and ocean freight are on the rise and therefore, the company has taken a decision to hike prices in quarter 4 of FY2021 to offset the impact of input cost increase to some extent. However, it is difficult to pass on the entire input cost increase on to the customers. Therefore, we anticipate some impact on the margin in quarter 4. That was all on the financial side. Lastly, ladies and gentlemen, 2021 brings a new ray of hope for people, economies and businesses. We are hopeful of a much stronger FY2022 as we get closer to exiting the current financial year. We see a good demand environment across all key business segments. We believe we are well poised for the better future. We have the financial resources in terms of a strong balance sheet and a healthy cash position, a great set of products and a motivated and experienced team to capitalize on this opportunity. With this summary, we may now commence question and answer.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Sir, my question was if you can give some outlook on the demand, so which are the key segments, which is driving the demand for the PowerGen business and other segments and also if you can touch upon the impact of TEV, BS4 and CPCB. So regards to that, when do you expect to take the price hike and if any prebuying you have already started seeing?

Sanjeev Nimkar: Okay. Good afternoon to all of you. This is Sanjeev Nimkar here. Thanks for this question. The demand, as Pawan was explaining to all of you that last quarter was one of the best quarters for us, and the same momentum continues for even this quarter. So specific to your question, the Power Generation demand is primarily flowing and this time, it is a mix of infra projects, which government is putting inputs in that and as well as last 3, 4 years, we had seen a major slowdown on the capital formation related private sector projects, but last 4, 5 months, we are seeing that the confidence level of private sector has gone up in Indian economy and their future of coming 3, 4 years, whatever and those projects are coming back on track. So those are putting the demand. So the industrial consumption for the Power Generation has started coming in, which was relatively slower earlier. When the infrastructure related things are moving, airports and the ports and a lot of things into the process industries are moving. Agriculture process industries are moving very well.

Consumer space industries are moving very well. So all these sectors are adding to Power Generation demand. So that is the answer to your first question. Second point you asked about the BS4 and CPCB 4, what is the outlook and what is happening? In our last call on the investor call last quarter, we had indicated that BS4, our entire program is running absolutely as per plan and that time, I had shared that we crossed around 10,000 hours of trials of these 4 engines before even we launched the product in the market and that number right now stands around 18,000 hours now. So we have reached to 18,000 hours of pre introduction trial. So we are pretty confident about what kind of solutions we have provided to our customers and just for the sake of repetition, one of the important value add what KOEL has given to their OEMs is almost 0 change of the envelope of the machine. That means in spite of we are giving the very high-technology BS4 solution, the envelop change at OEM side is close to nil. So that is the biggest contribution we have done, and that is why most of the OEMs were able to retain in BS4. So that transition is running well. Not only that, starting December onwards, so December to mid of March, we have reasonable amount of prebuy demand of BS3 engines, which the OEMs are expected to convert into their machines, and they will sell these machines for next 6 months, or 3 to 6-month time frame. So that is a good story there. Coming to CPCB 4, as most of you are aware that the gadget is not yet out. So we are prepared for that, rather we are preparing for it. But the gadget is not out, so the final date of implementation is unclear right now, but as I said in the last call also that BS4 working, almost 70% of that is going to be very handy for us for CPCB 4 transition because similar technology is implemented for even CPCB 4 also. So that way, we are geared up to handle this transition also whenever it happens. That is it from my side.

Parikshit Kandpal: Sir, any sense on the price hikes which you are going to take for both I mean BS4 and CPCB 4, Sir, anything has been finalized as of now in terms of what could be the price hikes the industry need to take to upgrade the technology to this level?

Sanjeev Nimkar: There are 2 things into this. One is the BS4 price hike from the technology perspective so that has already gone. Those negotiations and discussions happened almost 8, 9 months back because when we were finalizing with OEM by OEM, we finalized that and roughly, you can say, 15% to 20% price rises are closed on that front, which had a technology impact. The second aspect is the recent phenomenon of commodity price rise impact of last 2, 3 months. So that is being under discussion. So when Pawan referred to price rise, it was primarily on the commodity linked and not the technology linked. So the commodity linked price rise is under discussion. So most of the OEMs, our discussions are either closed or in the last stage of closure and this month end or next month, it will start reflecting in our primary sales. Both Power Generation side as well as on the BS4, in the industrial engine side.

Parikshit Kandpal: Thank you I have some of more questions. I will join in the queue.

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

Sandeep Tulsiyan: Sir, my first question is on the PowerGen segment, you had indicated that activity level is back to 90% of pre COVID, as we can see in your results and you were expecting that there will be a slight growth that you are expecting in fourth quarter. Where are we on that track and if you could also highlight what is the current market share that we have at the end of 3Q versus the earlier quarter and what is the quantum of price hike that we have taken in this segment on an average, middle average basis?

Sanjeev Nimkar: Sandeep, and nice to hear your voice on this call. You asked primarily 3, 4 questions. I will answer one by one. So coming to the Power Generation side of the story, the price rise, what was the first question? I will answer the market share question first. We do have Q2 published figures with us, and Q3 figures are expected another 10 days' time. So not yet come. Till Q2, we are at 34% quantity market share and 23-point something on the value market share. So we are sustaining and maintaining our market share. So no worries on that. Minor changes plus/minus on the individual node by node, but holistically, we are at 34% and in HHP, we have gained 2% market share. So that is on the market share front.

On the price rise front, around 4% to 5% price rise, which is going ahead in the market, we have already discussed, and we have agreed with the different, GOEMs, but we have not heard much from our competition yet. 1 or 2, 2nd or 3rd level competitors have indicated indication of 3%, 4%, but the main competitors have not yet indicated anything to the market. So that is a little bit worry, but we felt it is worthwhile to go ahead with the price rise to the market. So any other thing I have missed out?

Sandeep Tulsiyan: No that it is helpful and secondly, Sir, on this electric pumps, we saw a 40% growth in the quarter on a consolidated basis. So you did highlight that in the presentation that you have grown in double digits in La-Gajjar Machinery. If you could split this growth between LGM and Kirloskar Oil, what are the numbers that we have done?

Pawan Kumar Agarwal: Yes. Sandeep, this is Pawan Agarwal. So electric pump KOEL, quarter 3 this year, we have done Rs.37 Crores roughly as opposed to Rs.21 Crores in last year. LGM, we have done Rs.129 Crores as opposed to Rs.103 Crores last year. Overall, combined 40%, growth.

Sandeep Tulsiyan: Understood and Sir, lastly, if you could also help us the growth rates within industrial, how have we done within off-highway and tractors and the balance part or the construction fuel handling and all of that? Just to get a sense of which segment is the one which is driving the sales and how much percentage of portfolio will be impacted by this BS4 change for the industrial segment as a whole?

Pawan Kumar Agarwal: So let me address the first part and second part, probably Sanjeev can answer. So within industrial segment, construction equipment in quarter 3 grew by 58% for us year-on-year. Earthmoving grew by 32% year-on-year. Fluid handling about 87%, material handing, which is a very small portion of the business, 41%, and exports within industrial business grew by about 14%.

Sandeep Tulsiyan: And Sir, this tractor is included in earthmoving here or where?

Pawan Kumar Agarwal: Tractor, I will give you the tractor growth also.

Sanjeev Nimkar: No, tractor is not a part of earthmoving. Tractor is separate.

Pawan Kumar Agarwal: Tractor in quarter 3 year-on-year grew by 142%, and on a 9-month basis, tractor growth is 30% year-on-year.

Sandeep Tulsiyan: Okay. Understood. Yes and the second part for that question, Sir?

Pawan Kumar Agarwal: Can you repeat your second part, please?

Sandeep Tulsiyan: What percentage of this portfolio will be impacted by this BS4?

Sanjeev Nimkar: 35% of the portfolio is impacted by BS4.

Sandeep Tulsiyan: Okay got it Sir. Thank you so much for answering the questions.

Moderator: Thank you. The next question is from the line of Nilesh Jethani from Envision Capital. Please go ahead.

Nilesh Jethani: Sir, my first question was on the expense side. So we have seen a sharp reduction in the other expenses on Y-o-Y basis for the last 2 to 3 quarters now. Sir, just wanted to understand, which are these line items you are able to capture or reduce our cost in the other expenses and by what proportion do we expect these to normalize again, say, starting FY2022?

Pawan Kumar Agarwal: Okay. Thanks. So basically, other expenses will have 3 broad categories which are manufacturing, selling and admin. So on a 9-month basis, manufacturing is down by about 13.6% year-on-year. Selling expenses are down by 14% year-on-year and admin expenses are down by 32% year-on-year, overall, for 9 months period, you can see about 19% reduction in expenses. Now, as I mentioned in my opening remarks, as the business is slowly getting back to the normalcy, with the opening up of economy and people started traveling, sales advertisement expenses, etc., kicking in. Now slowly, we are going back to the normal levels. We do not expect the old level of costs, which is calendar year FY2020 cost to continue in the next financial year. So it will be back to the pre-COVID levels. We do not see major change in the cost, maybe a few Crore rupees here and there.

Nilesh Jethani: Okay. Understood and Sir, we are also talking about we have taken price hike. But yes, there would be some impact on the gross margins. Typically, we are not passing on the entire impact to the customers. So what impact can we expect on the gross margin due to the rise in the commodity prices and we unable to pass the same to customers?

Pawan Kumar Agarwal: Sure. We are still evaluating; as Sanjeev indicated, we are in various stages of dialogues with our customers and also we are engaging with our suppliers. But at a very high level, we are expecting about 1% to 1.5%, somewhere in between impacting quarter 4.

Nilesh Jethani: Okay. Understood those were my questions, if I have anymore I will join back in the queue.

Moderator: Thank you. The next question is from the line of Pankaj Rawal from Ace Land storm. Please go ahead.

Pankaj Rawal: First of all, congrats on the good set of numbers. So my question is, Sir, we can see the good growth in the electric pump in Q3. So how much is the growth we are expecting in future, may be sustainable growth, if any guidance on that?

Sanjeev Nimkar: See, this question is coming on almost all calls in last 2, 3 conference calls and we have been constantly telling that we are very strategic in our actions on the electric pump side. Because we have implemented verticalizations of different, different small businesses within electric pumps, and that is contributing to our results. So if coming straight to your question, at least next 2 to 3 years, we are confident that this growth story, whatever, in double-digit growth story should continue on the pump side.

Pankaj Rawal: Any ballpark on strong double digit, because otherwise it becomes 40%.

Sanjeev Nimkar: Yes. We will be gaining market share in pump side for sure.

Pankaj Rawal: Okay. My next question is, what is the current market share in the kVA?

Sanjeev Nimkar: LHP, MHP and HHP. These are broad level we categorize. So in LHP side, which we talk up to 30 kVA. Our market share is around 39% to 40%. Then next, we put 30 kVA to up to 200 kVA, so which we call it as a MHP so there, our market shares are around 35%, 37%, in between and then we have HHP segment which is 200 kVA and above till whatever, 2,000 kVA, we call it as a HHP segment. So collectively, we are at around 19% to 20% market share there.

Pankaj Rawal: 19% to 20%.

Sanjeev Nimkar: Yes.

Pankaj Rawal: Okay and my last question is, Sir, what is the company's preparation on the compliance with the emission norms maybe any capex or any other preparation?

Sanjeev Nimkar: No. So the capex is a routine. So for both BS4 and CPCB 4, our capex is already almost BS4 100% capex is utilized, which was in the tune of Rs.72 Crores to Rs.75 Crores for BS4. And for CPCB 4, the capex will be on similar lines, close to Rs.100 Crores, but out of that, Rs.60 Crores, Rs.70 Crores, we have already utilized because very close to the final solutions. So we are prepared for that, and capex is already aligned for it.

Pankaj Rawal: Okay that is all from my side.

Moderator: Thank you. The next question is from the line of Renjith Sivaram from ICICI Securities.

Renjith Sivaram: Congrats on good set of numbers. Sir, when we look at your segmental breakup, the PowerGen, there has been a decline. Sir is it largely attributed to slowdown in railways or is there some in that LHP and in that MHP, there is a kind of overall demand slowdown. Can you just give some more granular…?

Sanjeev Nimkar: If you look at for Q3, we have grown in PowerGen for Q3, only for the quarter. If you look at the YTD numbers, then Q1 and Q2 was very slow, so that was the reason and you are right that this railway business, not only for us, but overall, industry railways have curtailed their requirements and their orders are curtailed right now. So when they will open up that time, we may get some orders from them. But that has not impacted much to us and in Q4, we expect to grow on Q4 last year. So YTD level, we are down, but quarter-to-quarter, we are growing.

Pawan Kumar Agarwal: Yes. I mean, partly, you are right. Power car, quarter 3 last year was about Rs.34 Crores sales and quarter 3 this year is insignificant, somewhere around Rs.2-odd Crores. So about Rs.32 Crores impact is there on account of power cars in quarter 3.

Renjith Sivaram: Okay and has that segment started to recover? Or is it still challenging?

Sanjeev Nimkar: No. The government has not given any indication till date. So we expect another 1 quarter may go like that only without any orders flowing from railways.

Renjith Sivaram: And how big is this Pune metro order, which you have indicated?

Sanjeev Nimkar: Not fair to talk on this call at this moment, but once we execute, we will talk to you.

Renjith Sivaram: Okay and you told that around 50% of your PowerGen portfolio will be subjected to the CPCB norms. Is that right?

Sanjeev Nimkar: No, it will be more than that.

Renjith Sivaram: How much percentage?

Sanjeev Nimkar: It will be more than that. See, the CPCB 4, only up to 19 KW is not coming under CPCB 4. Everything beyond that is part of CPCB 4.

Renjith Sivaram: So that will be almost more than 80% of your portfolio, right?

Sanjeev Nimkar: Yes, almost 80%, 75% to 80%.

Renjith Sivaram: So we have already come out with our own test engines and stuff, those processes are done and that could be ready for...

Sanjeev Nimkar: We are in the process of finalizing the right recipe, right solutions for that. We have not built any prototype for CPCB 4 because it will be too early. Because CPCB 4, we expect sharp price rise, rather the sharp cost rise and that is why there are multiple ways to achieve the same emission adherence. So different recipes are kept ready as and when the gadget is out, we will be coming out with our prototypes and setting out. So we are pretty confident on sticking to the deadlines, whatever government wants us to do.

Renjith Sivaram: Okay. Thanks.

Moderator: Thank you. The next question is from the line of Rishikesh Oza from Robo Capital. Please go ahead.

Rishikesh Oza: Just one question from my side. Could you please comment around your NBFC business with regards to the cost of funds or the gross loan book and also your outlook for 2022?

Pawan Kumar Agarwal: Okay. Thanks, Rishikesh. This is Pawan Agarwal. So our NBFC arm Arka Fin cap Limited, as we mentioned in the earlier calls also, continues to do well. Quarter 3 has been pretty strong for Arka and for a 9-month period, also, the company has delivered a decent performance year-on-year basis. We have delivered Rs.5 Crores of PAT in quarter 3 versus Rs.2 Crores of PAT in the previous year quarter 3 and on a 9-month basis, our PAT is about Rs.12 Crores as opposed to roughly Rs.3 Crores in previous year. So that is growing. Profitability is there. Now coming to the AUM, Arka has a total AUM of about Rs.1,160 odd Crores. With loan book of Rs.962 Crores, roughly Rs.200 Crores treasury book. The loan book is primarily towards corporates and Real Estate. Corporate borrowers roughly about 59%- 60%. Real estate is about 35% - 37% of the AUM and we have just started MSME in Arka. So we expect this segment also to grow in a meaningful manner going forward. As far as the outlook is concerned, we remain cautiously optimistic on the performance of the company and as we had indicated in the earlier calls also, we are looking at every quarter very, very minutely at the KOEL Board level also. So as of now, we see buoyancy in the business and next year outlook looks positive for Arka.

Rishikesh Oza: Okay. Sir what is the cost of funds?

Pawan Kumar Agarwal: Average borrowing cost would be roughly about 9%, 9.5% in between. So that is our average borrowing cost in Arka.

Rishikesh Oza: Okay and do you see that coming down in next year or remain flat?

Pawan Kumar Agarwal: It is difficult to comment at this stage on this area.

Rishikesh Oza: Okay, no problem. Thank you.

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

Bhavin Vithlani: Congratulations on good set of numbers. My question is on the Agri portfolio and I mean if you take Agri as one in pump sets, pillars and the engines which we are selling to the tractor. So on a 9-month basis, how large is this portfolio and if you could give a 3 to 5-year perspective, where do you see this portfolio going ahead and what are the initiatives that we are seeing to drive growth on each of these 3 verticals?

Pawan Kumar Agarwal: Sure. Thanks, Bhavin. Overall, in KOEL, agriculture consists of broadly 4 sub businesses, agriculture crop irrigation, farm mechanization, tractor parts oil and agriculture exports. So these are the 4 elements. Now if I look at quarter 3 year-on-year, overall agriculture basket has grown by 44%. Within that, the crop irrigation has grown by 27% year-on-year in quarter 3. Farm mechanization has grown by 172%, which is basically the power tiller business and weeder business. Tractor parts oil business has gone up by 26% in quarter 3 year-on-year, and exports within agriculture has gone up by 76% year-on-year basis. If I look at 9-month period, at an overall level, agriculture grew by 3% year-on-year basis. Within agriculture, Agri CI for 9-month period, year-on-year basis declined by 10%. Farm mechanization grew by 41%. Tractor part oil grew by 7% year-on-year. And exports grew by 44% year-on-year basis. That is the breakup of agriculture for a 9-month period.

Bhavin Vithlani: Sure and how do you see this business on 3 to 5 years and if you could just briefly elaborate on the strategies for growth, that will very easy.

Sanjeev Nimkar: So if you look at different segments into this agricultural composition, as I was talking about sometime back, the crop irrigation, primarily the electric pumps and the engine related pumps, engine-based pumps are declining, all of you are aware, but electric pumps are growing at a much faster pace, and we are capturing market share there. So that story will be extremely positive. Power tillers and weeder and that farm mechanization is of that story. Now we were struggling for the last 2, 4 years to put it profitable business because we were growing. As we speak, we are already #2 in the country as a small farm mechanization solution providing company, we are #2. Now our focus is sharply on how we make this business into good profitability and our efforts of VAV and these things are aligned. In fact, government some decisions of stopping some imports in that space has also triggered positively for us and as we are talking to you, lot of our engines we have indigenized, and all our products we are giving with our own engines. We have already started that process so that will bring in enormous impetus in terms of farm mechanization, the business growing in next 3 to 5 years horizon in that space. Crop irrigation will grow. Even in the international market, we have seen a good traction this year for all our Agri engine, and we will be introducing KOEL electric pumps in international market in the next 2 years' time. So that means holistically, the story of this entire Agri piece will be on a positive side.

Bhavin Vithlani: Sure. Sir, could this become a 50% to 60% of the total business out shadowing the PG because underlying growth on PG has been very slow?

Sanjeev Nimkar: See, eventually, down the line, 5 years, this may happen.

Bhavin Vithlani: Understood. The second question is, if you could highlight about the other initiatives and the diversification that you are focusing on maybe some bit on the motors front and the composed front that we were targeting any update on that will be useful?

Sanjeev Nimkar: Yes. If you look at motors, we have already specified in our board reports and we have got approval from the board for that. Motors is a natural extension for us because for the LGM side of the story, which is our subsidiary and KOEL Electric we are already in the business of managing Rs.600-odd Crores, Rs.600 Crores, Rs.700 Crores of motor-linked business, which is the electric pumps. So getting into a stand-alone induction motor is a natural extension, and we are very close to finalizing our portfolios and right channel partners, but very shortly, we may be introducing that to the market. And we are hopeful that we will be able to make a dent in that industry, and we will have advantage of common buying, common sourcing of a lot of components, lot of materials and proven manufacturing processes with us. So that's the motor story. The organic waste compositor, that is extension of our commitment to the environment as well as to the green products from the KOEL stable. So this particular product in terms of its customer base, in terms of manufacturing of this product is coming very close to our genset business. And the channels also will be similar channels, which we'll be taking this product to the end customer. And if we look at last 2, 3 years of decisions of many central governments, state government and the local bodies specifically indicating that they may not be supporting to lot of societies, the housing societies for managing their wet waste. So this kind of a product comes very handy for that solution. And the buying happens at a level where the genset is getting bought. At the similar time, this product also goes into the society or the commercial complexes. So that is the synergy what we spotted. That product is also ready. And maybe down the line 1 quarter we'll be introducing to the market.

Moderator: Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Just on the data center opportunity. So our PowerGen segment so what fuel are we using for the PowerGen for the data centers, sir, so what kind of diesel you are using it?

Sanjeev Nimkar: So data center is a good opportunity, which is coming up in our country. We are observing one shift of trend in data centers. 2 years back or 3 years back, a major component of requirements on data centers used to be 750 to 1,000 kVA and 30% - 40% requirement used to be in 1,250 to 2,000 kVA domain. But if you look at last 12 months to 18 months trend, this requirement has shifted into the domain of 1,250 to 3,000 kVA. So there is an upward shift in data centers, not only that, but many things from global companies are also being shifted to India as their data center hub or something like that. So we have a limitations of our product range in that segment at the moment, but we are working out on those product lines and in a few quarters down the line, we may have a solutions up to 2,000 kVA. So that is point one. Coming to your question of diesel. Right now, in data centers also, the normal diesel, what is being used for normal genset, the same diesel is used. But there are some things like some data centers may be preferring a product only with the CNG or PNG based, there are some requests coming like that or futuristically, in international market, we are seeing some data centers using fuel cells, but that is too early for our country to come and go on that side because the costs are very, very prohibitive at that level. So these are comments on data centers from my side.

Parikshit Kandpal: But if we use a high-speed diesel, so I mean, so most of the fuel which we are using, have the technology for high using high-speed diesel for our PowerGen product?

Sanjeev Nimkar: We do have. We do have, depending upon customer, we have supplied some sets in the market with HHP, but it depends on customer to customers. But if you ask me what inquiries we are getting, not even 5% or 10% within that are there. Maybe on the lower side, they may not be using. But in the higher side, I have no idea.

Parikshit Kandpal: Okay. The second question was on the organic waste, which was discussed by Pawan earlier. So as a society, I do understand that in Maharashtra, this is a thing which has come in the circular has come, even into my society it has come. So this organic waste is more like a limited opportunity to Maharashtra? Or do you see other states also come up with circulars? And if you can also quantify how big this market size be?

Sanjeev Nimkar: Yes. See, commenting on the market size of this is too early because right now, this is a concept selling kind of a thing, very innovative solutions, new solutions to the market, not a very established industry. So it will keep on evolving and growing the more and more we promote the solutions because many places, people may not be even knowing that this kind of a solution does exist. Now coming to our venture into this business is not related to the government. In fact, the government circulars will be incidental support to us because primarily, our solution is giving a relief to the society irrespective of government what they want to do. Because if you look at it in a holistic purpose, the cost of operating this machine will be as low as Rs.1 per flat per month. So that is as low as that. So if collectively also society takes a call of buying this irrespective of government's insistence, it will be helping them, and the compost can go back to their own gardens.

Parikshit Kandpal: About the odor and smell which will be coming out because of the emissions on burning or incinerating this?

Sanjeev Nimkar: No. This is almost odorless.

Parikshit Kandpal: Okay and Sir..

Sanjeev Nimkar: So there will be macro organisms inside this machine, which will be making the compost.

Parikshit Kandpal: So no burning, no incineration, nothing. Sir, it is more like natural...

Sanjeev Nimkar: No. There is an element of heat being absorbed in that. Heat is taken off from the bio-waste and then the microorganisms come into picture, but no burning. There is nothing called burning in this.

Parikshit Kandpal: Okay and just last thing on the motor side, Sir, how much capex do you envisage in setting up this motor facility?

Sanjeev Nimkar: We do have our existing facilities right now and the initial entry in this we will be using the capacities available in the industry. So we may not set up our own investment to start with. But as the business grows, we are open to have an investment even in that space.

Parikshit Kandpal: It will be more like a trading margin. So you will be basically outsourcing this and then...

Sanjeev Nimkar: Yes, controlling our design and quality, and it will be a combination of both because we do have our capacities in the subsidiary factories.

Parikshit Kandpal: Okay, thank you.

Moderator: Thank you. The next question is from the line of Ashwani Sharma from Anand Rathi. Please go ahead.

Ashwani Sharma: Yes. Congrats for a good set of numbers. Sir, can you help me with the 9-month numbers for La-Gajjar Machines?

Pawan Kumar Agarwal: Yes. revenue was more or less flattish in LGM for a 9-month period, which was about Rs.364 Crores, but for quarter 3, we saw a growth of 25% year-on-year basis.

Ashwani Sharma: So what was the number, absolute number if you can just give?

Pawan Kumar Agarwal: Rs.129 Crores in quarter 3.

Ashwani Sharma: Okay and how about KOEL America?

Pawan Kumar Agarwal: KOEL America is, just a moment. KOEL America quarter 3 was close to Rs.9.5 Crores this year, which was Rs.5.5 Crores last year same period and for 9 months period, KOEL America was a little over Rs.20 Crores. Comparable number for last year was about Rs.14.5 Crores.

Ashwani Sharma: Okay. Sir, my second question is on your large engine business. Sir, in the beginning of the year, you had actually guided for a very strong growth for the large engine business for the full year basis, but now if you relate last 2 quarters, I think the performance has been very flat. So what is the outlook going forward, Sir?

Sanjeev Nimkar: I think you are absolutely right, and I am happy to hear your comment and it gives us, how carefully you are listening, you are absolutely right in the end of first quarter, I did say that our outlook is very strong on this business because we had a good opening order book and we were anticipating some good closures of the order, which we were already bidding. So incidentally, those closures, which we were expecting to happen in first quarter end or second quarter early, which has happened at the end of third quarter and we indeed have received one big order in that space, but unfortunately, the execution will move to the next year. As we speak, we have Rs.120 Crores plus kind of an order book in this business, but this year, overall execution and the decision-making in government has been extremely slow, because they were in an absolutely slowdown mode in terms of any buying. Government has taken very positive decisions in the infrastructure spend and all these things, but their own buying in defense and marine and all those segments. So that has been slowed down. So it has really, really impacted to this business. So order book, as we said, it is Rs.120 Crores, but could have been much better and execution is also relatively slowed down, but if we look at next year, we may see a much better business for this thing, maybe upwards of 25%, 30% growth on this business.

Ashwani Sharma: Okay and Sir, lastly, on the export side. So if I look at the 9-month number, I think we have already reached the last year's 9-month level. So what is the outlook from here on Sir, you did allude to the fact that the traveling restrictions and all but what is the outlook going ahead, Sir?

Sanjeev Nimkar: We may end up the year on a similar line, whatever like crude will be same as last year or slightly better than last year. What is happening in the international market or some of the strategies, as I said earlier also, have turned out very, very good for us, especially our entry into the firefighting segments, which are the FM-UL approved kind of a segment. Our products are consistently gaining the acceptance worldwide and we are gaining share. So that's a very positive story. We have given some latest electronic solutions for some mining segments in South Africa, and that business is doing well. Unfortunately, the Power Generation story overall in many markets internationally has not come back to even last year's figures. So the decline there is almost 30% - 40%. So that is where the whole story went on a little on a slowdown track and we expect, going forward, next year, Power Generation to come back and our 2 stories of the industrial engines and the firefighting to continue. Good surprise element for us this year was the Agri growth. Because the Agri markets, we have seen many governments. When the economies have slowed down, many, many markets in Latin America and Africa, we have seen that governments spend on Agri side has increased and this has resulted into a good demand on our Agri engine products and we expect next year that may sustain.

Pawan Kumar Agarwal: So just to support the statements that Sanjeev made on the exports, and if I have to give you segments; Agri segment has grown by 76% in quarter 3 year-on-year basis and for a 9-month period, the growth has been 44% year-on-year. Industrial, 14% and 22%, respectively and PG, as Sanjeev indicated, quarter 3, there was a decline of 32% and on a 9-month period, a decline of 29%.

Sanjeev Nimkar: Yes Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Yes. I have a few questions. Sir, on the margin front, just want to clarify, you mentioned that in Q4, we may see impact of about 1% on EBITDA margin?

Pawan Kumar Agarwal: Yes.

Manish Goyal: Okay and going forward on other expenses, which you have alluded over 3 categories, so basically on the base of FY2021, we will see these numbers increasing in FY2022, right, Sir?

Pawan Kumar Agarwal: Yes, I mean it will be back to pre-COVID level, which is FY2020 level is what I indicated.

Manish Goyal: Okay and in industrial engines you mentioned that 35% of the portfolio will be impacted by BS4. So ideally, what is the norm, which engines, is it off-highway or which category will get impacted?

Sanjeev Nimkar: These are primarily off-highway, the categories which are covered here are the excavators and backhoe machines and excavators also not the wheeled one, only the tracked. The wheeled are covered and tracked one are not covered in this and then your compactor machines are also covered under this and some machines from the construction equipment like self-loading transit mixers, those are covered under this.

Manish Goyal: Okay and sir, on the Agri side, just want to clarify, one of the segments out of 4 you mentioned was farm, tractor, oil, right?

Pawan Kumar Agarwal: Yes, Tractor parts and Oil.

Sanjeev Nimkar: Tractor parts and oil. So we sell spare parts of tractor engines, and we also sell consumable in that segment.

Manish Goyal: But still, when you mentioned Agri-related revenues, you didn't include tractor engines in that, right?

Sanjeev Nimkar: No.

Pawan Kumar Agarwal: No, tractor...

Sanjeev Nimkar: Tractor engines we include tractor engines in the industrial engines part.

Manish Goyal: But Sir, apart from farm tractor parts and oil, you must be selling another aftermarket also in Agri and which may be getting clubbed into the customer support category?

Sanjeev Nimkar: No. So whatever goes into Agri space gets covered into Agri, the tractor parts and other oil and consumables comes under this thing only.

Pawan Kumar Agarwal: No, TPO is covered.

Sanjeev Nimkar: It is added here?

Pawan Kumar Agarwal: Yes.

Sanjeev Nimkar: Okay.

Manish Goyal: So Sir, excluding tractor engines, Agri-related revenues would be how much of the total revenue because we did say that in 5 years, it can be 40%, 50%. But what is the current number we should look at it?

Pawan Kumar Agarwal: So this is Pawan here. So for 9-month period, Agri as a basket, as I said, we have done about Rs.390-odd Crores, within which tractor parts and oil is Rs.45 Crores. So if you exclude, if you want to look at the number differently, then Rs.391 Crores minus Rs.45 Crores, that is pure Agri and if you want to club tractor parts, oil Rs.45 Crores with tractor. So our tractor for 9 months was Rs.124 Crores. So that is the math.

Sanjeev Nimkar: No. One more clarity, Manish, on that. When I said 40% - 50% go this side, I am also keeping in mind the LGM side of the story. So that entire portfolio, I am considering as a part of this.

Manish Goyal: No, fair point. So just to clarify, tractor engines was Rs.124 Crores s in 9 months?

Pawan Kumar Agarwal: That is correct.

Manish Goyal: Okay and I have one more question on the electric pump side that in Q3, we had a very strong revenue growth, but the segment table shows that the profits has been flattish. We had 40% revenue growth in electric pumps, but segment PBIT was up only 6%. So was its particular reason why margins were impacted in the quarter?

Pawan Kumar Agarwal: Yes. I mean, LGM side, there was a pressure on profitability. So that has kind of put pressure on the profitability of electric pump on an overall basis. now we have taken price rise in LGM.

Manish Goyal: Okay and Sir, did we face any challenges in terms of shortage of components like we heard that fuel injections was a challenge in terms of availability due to shortage of chips and stuff like that, did you face any challenge in Q3? Or are we facing any challenge on that?

Sanjeev Nimkar: No, the entire Q3, you are absolutely right, fuel injection pump was deciding the sale in the market because that was a big challenge with this particular supplier, which is unfortunately unique to many, many competitors and many industries and this entire quarter, right from October to December end, we were going through the difficult challenges on that front.

Manish Goyal: So this would be largely across portfolio or only for the PowerGen?

Sanjeev Nimkar: No, across, it affected industrial engines and it affected PowerGens to some extent.

Manish Goyal: But has situation improved or you still expect...

Sanjeev Nimkar: Yes it kept on improving continuously because we were monitoring with those particular suppliers, almost on a weekly basis. Even at a highest level. So the situation kept on improving, but the demand was surpassing the supplies. That was the situation.

Manish Goyal: So ideally, in Q3, you could have done better if this problem would not have.

Sanjeev Nimkar: Maybe 8% -10% better in those segments.

Manish Goyal: Okay. Thank you so much Sir.

Moderator: Thank you. Participants due to time constraints, we will close this call. I now hand the conference over to management for closing comments.

Pawan Kumar Agarwal: Thank you. Ladies and gentlemen, thank you for attending the third quarter earnings conference call of Kirloskar Oil Engines Limited and participating in the call. We have tried our best to answer all your questions. For any further question, you can connect to us or can look at our website for further details. We wish everyone a Happy New Year once again, stay safe. Thank you so much.

Sanjeev Nimkar: Thank you.

Moderator: Thank you very much. On behalf of Axis Capital, we conclude this conference. Thank you for joining us, and you may now disconnect your lines.