"Kirloskar Oil Engines Limited
Q1 FY '25 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to Kirloskar Oil Engines Limited Q1 FY '25 Earnings Conference Call hosted by Antique stockbroking. As a reminder, all participant lines will be in 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 star then zero 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, Aditya. Good evening, everyone. On behalf of Antique Stock Broking Limited, I welcome you all to the post earnings call of Kirloskar Oil Engines Limited. To discuss the results, we have with us the senior management team of the company, represented by Ms. Gauri Kirloskar, Managing Director of the company; Mr. Rahul Sahai, CEO of B2B business. Mr. Aseem Srivastav, CEO of B2C Business; Mr. Sachin Kejriwal, CFO of the company.

I'll hand over the call to Ms. Gauri Kirloskar for her opening remarks, post which we can open the floor for question and answer. Over to you, Ma'am.

Gauri Kirloskar: Thank you very much. Good evening to all of you. This is Gauri Kirloskar, Managing Director of Kirloskar Oil Engines. Thank you all for joining the call today. Besides the people already mentioned, we also have on the call Smita Raichurkar, Company Secretary; and Amit Gupta, who is the CFO of Arka. I will start with the business update first, followed by a financial overview by Sachin and then we can open the floor for a Q&A session.

I am happy to report that we continued to surpass records in this quarter. We recorded the highest ever quarter 1 sales for KOEL at INR1,334 crores. This is 6% higher than the Q1 of last year. Please note that the first quarter of last year witnessed prebuy in the view of emission norm changes. So the 6% growth over that number is, I believe, a commendable achievement. I would like to congratulate our whole team on these results.

If we take back the effect of the prebuy from last year, then the Q1 revenue growth is 18%. All of the business units except for mechanization, have grown double digits compared to last year, excluding the prebuy effect of the first quarter of last year.

On margins, EBITDA was at INR198 crores, which reflects a 14.7% margin. It is 250 basis points higher than the quarter 1 last year. Please note that we have recovered the provisions we have made last year and this number, which is 14.7% is reflective of that. So overall, if you look at the net profit, KOEL stand-alone was at INR135 crores, which is 30% higher than the Q1 of the previous year.

Now coming to business updates. The demand continues to stay strong. On the B2B segment, we are concentrating on our technology track to solidify our position as a leader in power and energy systems.

From a business perspective, at a stand-alone level, we achieved sales of INR1,152 crores, representing a 5% year-on-year growth despite an exceptionally strong first quarter last year that experienced significant prebuy demand.

On the Power Gen side, we have successfully transitioned to the new emission regime by ramping up our CPCB 4+ engine production capacity. We now boast one of the largest CPCB 4+ certified portfolios in the industry. Additionally, we have received certification for natural gas genset nodes, advancing our flexible fuel strategy. We are expanding our Optiprime range of gensets as we continue to introduce new power solution products for our customers.

The Industrial segment experienced substantial growth of approximately 38% year-on-year, driven by strong demand from our construction OEMs. We are also making good progress with the upcoming CEV BS V emission changes, conducting field trials in collaboration with our OEM partners. The distribution and aftermarket business recorded a 14% year-on-year growth as we focus on enhancing service penetration and improving the service capabilities of our channel partners.

Lastly, the drive to increase our presence internationally have started yielding results with our International business growing by 23% year-on-year. We are working with our international partners to increase reach and deepen our service presence to drive growth.

Coming to the B2C business at a stand-alone level, we recorded sales of INR182 crore, which is a 14% growth year-on-year. WMS or water management solutions sales grew at 20% year-on-year, while Farm Mechanization sales underwent degrowth. Exports in the B2C stand-alone were at INR10 crores, which have almost doubled from the last -- Q1 of the last year.

I will now talk about the consolidated business updates. Revenue from operations was at INR1,636 crores, which is a 6% growth year-on-year. For the B2C segment, one of the key events this year is shifting of the manufacturing facilities to Sanand. We are moving ahead as planned, and we expect to complete this in the second quarter. KOEL WMS has grown by 20% year-on-year. The export sales growth numbers at 11% over Q1 of last year. Both KOEL WMS and LGM reported double-digit EBITDA.

Our Financial Services business Arka revenue was at INR163 crores, which is a 27% growth year-on-year. The assets under management as on June 30, 2024, stood at INR5,768 crores. With the key business updates completed, I would now like to touch upon the strategic growth path of 2X-3Y. As we enter the final year of this journey, we at KOEL are fully committed to the growth path we set for ourselves.

Despite some changes in our year-on-year journey due to last minute changes in the CPCB 4+ deadline, we have managed these changes well and maintained our focus on overall growth. This growth encompasses not only the top line but also advancements in technology, more R&D efforts, and accelerated introduction of new products.

This shift is not just reflected in our financial performance, but also an internal transformation of our operations. As you know, over the past 2 years, we have restructured our business, reinforced our group value and cultivated a strong company culture. This transformation has prepared us not only for the 2X-3Y journey, but for the longer part that lies ahead.

As I spoke in my last call as well, at KOEL, our aim is to transform from an engine manufacturing company to a technological leader in power and energy systems. So on this call in the beginning of the year, I would like to give you an update on what we want to aim for as a company in the next 5 years.

If you look at the last slide in our investor presentation online, you will see that our ambition is to 2B2B, which readouts our ambition to be USD2 billion by fiscal year '30. If you look at the levers that we will leverage to achieve our 2B2B strategy, our core manufacturing strategy is something that we will focus on. This includes make versus buy decision, what to solve, what the machine and what capacity levels we want to have.

On the B2C side, we have a new plant that will get commissioned this quarter. And with that, we will have enough capacity to take us on this journey. In the 2X-3Y strategy, we have come out with 4 technology tracks, and we had shown a road map as far as these technology tracks are concerned.

I keep saying that at the heart of it, we are an engineering company, which also manufactures and sells, and our focus on R&D will stay, and we will continue to invest in R&D. We are excited to be part of this transition that our industry has seen, and we believe that this is a once-in-a-lifetime opportunity to make a difference to the world and the communities that we serve.

We will also look for inorganic growth opportunities as we go along, but we are clear on what fits our strategy and what will not. And we will grow only in areas where we have core competence and where it makes sense to enter. As you know, we have a healthy balance sheet, and we will make sure that we invest with prudence.

Our international strategy will continue. We have made significant progress. And it is our aspiration that our international portfolio is at 30% of the overall pie. We have made good progress in the last 2 years. We have made some strategic moves, and we will continue this focus. We will also focus on completing the product portfolio in the B2C business, and we will make sure that this business grows as well.

Now I will hand over the call to Sachin for a quick financial overview. Thank you.

Sachin Kejriwal: Good evening, everyone. Thanks, Gauri, for the update. I will now run through the financial performance for stand-alone and consolidated business. As you see from the numbers, Q1 top line registered growth year-on-year despite of the prebuy reflected in numbers for Q1 of last year. This is now 8 quarters in a row that we have crossed INR1,000 crores in revenues from operations.

Coming to the financial performance, I will start with the stand-alone performance first. Revenue from operations at INR1,343 crores for Q1 FY '25 versus INR1,265 crores for Q1 financial year '24, which is 6% increase year-on-year. If we remove the effect of prebuy sales from Q1 last year, then Q1 FY '25 performance reflects 18% growth year-on-year.

EBITDA at INR198 crores for Q1 FY '25 versus INR155 crores for Q1 FY '24, which is 28% increase year-on-year. EBITDA margin at 14.7% for Q1 FY '25 versus 12.2% for Q1 FY '24.

Net profit at INR135 crores for Q1 FY '25 versus INR103 crores for Q1 FY '24, which is a 30% increase year-on-year. Our net cash and cash equivalents at the end of Q1 FY '25 was INR410 crores versus INR269 crores at the end of the previous quarter. The working capital as of quarter-end 30th June has seen an increase of INR135 crores as we are gearing up for production ramp-up in CPCB 4+ regime. However, we continue to grow our net cash position, which stood at an excess of INR400 crores.

Now there is a further breakdown of the stand-alone sales. The B2B sales were at INR1,152 crores, that is 5% growth year-on-year. Within B2B Power Gen was at INR528 crores, which was 13% decline year-on-year. Excluding prebuy in previous years, it is 10% increase year-on-year. Industrial stands at INR320 crores, that is 38% growth year-on-year. Distribution and Aftermarket was at INR198 crores, 14% growth year-on-year and IBG that is International business of B2B was at INR106 crores and with 23% growth year-on-year.

The B2C sales were at INR182 crores, registering 14% growth year-on-year. And within B2C, WMS was at INR155 crores, that is 20% growth year-on-year. International business of B2C was at INR10 crores, that is 100% growth year-on-year. And FMS business at INR17 crores witnessed a 34% degrowth year-on-year.

Now looking at the consolidated performance for the quarter. The revenue from operations at INR1,636 crores for Q1 FY '25 versus INR1,543 crores for Q1 FY '24, with a 6% increase year-on-year. Net profit at INR157 crores for Q1 FY '25 versus INR126 crores for Q1 FY '24, which is 25% increase year-on-year.

Let us have a look at consolidated segment performance now. B2B segment revenue for the quarter was at INR1,156 crores, which is 5% growth year-on-year. The segment PBIT was at INR157 crores, reflecting approximately 19% increase year-on-year. B2C segment revenue for the quarter was at INR317 crores, which is 2% growth year-on-year. The segment PBIT was at INR27 crores, up by 53% year-on-year.

Financial Service segment revenue for the quarter is at INR163 crores, reflecting 27% year-on-year growth. The segment PBIT was at INR19 crores, that is 11% decrease year-on-year.

In conclusion, we are quite pleased with our performance this quarter. Looking ahead, our outlook for the upcoming quarter is cautiously optimistic as we navigate the market with the introduction of fully transitioned CPCB 4+ market for Power Gen. Overall, as we continue on our long-term journey, the entire KOEL team was enthusiastic about the past period. We are also pleased to inform you that our long-term debt credit rating has been upgraded to AA+ by CRISIL, and our short-term credit rating continues to be higher at A1+.

Now we will open the forum for Q&A session.

Moderator: Our first question is from the line of Rishabh from Sacheti Family Office. Please go ahead.

Rishabh: Sir, for the segmental revenue you shared, data center-related revenue comes in power generation, right? So I wanted to understand how much portion of power generation revenue is linked to data centers?

Rahul Sahai: Rishabh, so this is Rahul. I wouldn't be in a position to give out a specific number. But from a business standpoint, we are focused on the data center segment. Today, it is not extremely significant for us. Going forward, given the product ranges that we've entered into, it will be far more significant.

Rishabh: Sir, for 1 megawatt data center, capex let's say, INR40 crores, how much expense is attributable to what we sell for a data center, right, that is a genset? So how much for that? And what is the life of such a genset? And once installed, do you have any kind of revenues we are able to make in terms of operations or maintenance?

Rahul Sahai: Yes. So if you look at an overall capex of data center and -- I mean, I'll just broadly respond because I may not be in a position to give out specific numbers here. But the data center buys a variety of different power backup solutions and gensets are part of those. Gensets are critical for data centers for their uptime certifications or data center certifications.

Having said that, like I said earlier, we are developing a range that will allow us to be far more aggressive in the segment. And over a lifetime, once you have sold the genset, you can accompany that with different kind of maintenance contracts, which will also allow for the annuity business.

Rishabh: No, that's fine. But let's say, a data center -- 1 megawatt data center, how -- like what would be a typical expense which a data center would be incurring on a genset? Like that is not confidential, right? That you can tell? Any broad number, sir.

Rahul Sahai: Yes. No. So is this information that I may not have handy like this, but I'm sure it's available when you check it online. So it may not be as directly relevant to this conversation.

Rishabh: All right. Got it. Also, I wanted to understand, have we explored -- exporting gensets for data center usage abroad? And like what are the main players who are in the export business internationally for that? And any cost difference or quality difference we have versus competitors abroad?

Rahul Sahai: So thanks for asking that question. Like I was saying that we are focusing on products that go into data centers. We are aware of the competition. So you have all the large engine manufacturers focusing on data centers. We are very aware that it's a growing market. If we go into the market depending on what market it is, we will be able to have varying value proposition. Cost leadership could be one of the value proposition, but product differentiation is also something that we are focusing on.

Rishabh: Just one question. What is the life of these gensets, like, how many years?

Rahul Sahai: So I could take a thumb rule of about 15 years.

Rishabh: 15 years. And what kind -- do we -- like what kind of operation and maintenance kind of business is related to these gensets, if you can tell a bit about that?

Rahul Sahai: What kind of operation and maintenance, you're asking?

Rishabh: Like service revenue. Yes, service revenue once it is installed, what kind of service revenues do you see from it, let's say, in a data center which has taken your genset? Yes.

Rahul Sahai: So are you expecting an answer in terms of percentage of capex?

Rishabh: Yes. Percentage of capex or some qualitative insights on that, some numbers if possible.

Rahul Sahai: So there are varying levels of annuity-based contracts that we can sign with the customer. So it's slightly complicated. But in terms of being able to answer that directly, but the scope of the contract would define that and the level of uptime that we signed would also define that. So the scope could vary from just ensuring that the parts are supplied on time, and there is a person showing up at the maintenance intervals that we've committed to. And from there, it could vary to placing people on site to ensure that the 24/7 uptime is insured. So it varies a lot.

Moderator: Our next question is from the line of Charanjit Singh from DSP. Please go ahead.

Charanjit Singh: So my first question is in terms of when we look at the end market right now, how is the demand environment you are seeing as this transition is happening to CPCB 4? So maybe if you can just give some color from the various end markets perspective, the demand or the inquiry pipeline?

And the second question is in terms of the inventory at the OEM level as we would have exhausted all the inventory and the refilling will start happening for CPCB 4 related gensets. How that inventory refilling will happen? And based on all these things, how can we see the market growth rate for the domestic power genset market? That's the question.

Rahul Sahai: It's Rahul. So -- if I look at -- and I'll answer the CPCB 4 ramp up with our GOEMs first. Just in this last quarter, we ramped up to very close to our normal CPCB 2 numbers with CPCB 4. Now the inference from that is that since the primary billing is happening, the demand continues to be strong because we operate on the replenishment model, theory of constraints.

From a lead standpoint, and these are end customer leads, we are not seeing any major changes in terms of demand signals. So the demand continues to be strong. Gensets continue to be leveled to back up for critical infrastructure projects. And we are not seeing any softening happening. We are keeping a close eye on market developments. But at this point, we see that market continues to be strong.

Charanjit Singh: And from the market growth perspective, is there a number for the full year in terms of what's the kind of market growth? What we can expect?

Rahul Sahai: So from an overall business, we remain pretty committed to the 2X-3Y. So that's a proxy that you can take.

Charanjit Singh: Got it. And on the spare parts business, if you can touch upon that with the CPCB 4 compliance increasing and the entire provision happening. How do we see the spares business growing over the next 2 to 3 years? What could be the growth trajectory in the spares business as more and more now gensets come to the OEMs are more -- get serviced by our own service partners rather than going outside. So how does that positively impact the service business?

Rahul Sahai: Right. So you're right, it will definitely positively impact the service business. Now that is a function of 2 things. One is the technology becoming more complicated. So that's from the market side. And the second thing that we're doing is we are also ramping up on our service channel capabilities. So there is some restructuring work that we're doing there as well. To ensure that, we're able to respond to our customers in time. Now if you look at the last quarter's performance of our Aftermarket business, it is substantial double-digit growth. And that is primarily because of these 2 key initiatives.

Moderator: Our next question is from the line of Ankit from Subhkam Ventures. Please go ahead.

Ankit: Yes. A couple of questions. As you mentioned that we are committed on this 2X-3Y strategy, just wanted to confirm. So this year, our guidance was to achieve a revenue of INR6,500 crores at the standalone level. So given the Q1 performance and the ask rate which is required in the next 9 months, are you still confident of achieving this guidance of INR6,500 crores as the new standalone business?

Rahul Sahai: So to 2X-3Y is an ambition and all our actions are towards achieving that ambition. And I think that is where I would leave it. We will try and ensure that we get to that number or we get as close to that number as possible.

Ankit: Okay. Okay. That's helpful. Second question is, sir, you mentioned your 2030 mission. So if you can just break up this USD2 billion revenue target between the product side and the Arka side, what would be the difference and importantly the revenue of these 2 businesses? And also, you mentioned that there could be some inorganic activities also. So excluding the inorganic part also, what kind of revenue you are looking at from the product business?

Gauri Kirloskar: Yes. Thanks for your question. First, I just want to state that again, the 5-year target is an ambition. So that's number one. And if you look at the slide that we put up on line, we have talked about some of the strategic levers that we will focus on to get to that kind of growth. So we are very clear as a team where we need to focus. I'm not going to, at this point, be able to give you a business-wise breakup. So what I can say is that most of the growth achieved will be on the B2B side. And if you look at the growth rates that we've achieved historically over the last 2 years, that's the sort of trajectory that we would expect.

So I'm going to leave it that. The detail that we want to provide has been provided in this slide, and it's really going to be impossible for me to dwell further than that because even if you look at 2X-3Y, when we had announced it 2 years ago, we had actually specified certain, say, buckets of revenue as a bridge. If you look back, the way it's panned out is quite different. So -- so yes, that's part of the detail that I can give you right now.

Ankit: Actually, both the businesses are totally different. One is the financial services and one is a product company. So just a broad breakup between these 2 segments will be okay.

Gauri Kirloskar: I'd say 80-20.

Ankit: 80-20. Okay. And finally, on the margin side, I mean on the standalone business, margins are at around 13% level on EBITDA. So going forward, what is your outlook on that? With this CPCB 4 products now coming in, the price increases which you guys have taken, so where do you see the margins in this business?

Rahul Sahai: Yes. So, I mean, there is no specific margin guidance that we can give at this point. We are closely evaluating the market dynamics play out. It's too early. The second thing is that our focus areas for margin expansion remain the same that is focusing on high-horsepower products, focusing on our international business and focusing on aftermarket.

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

Jeetu Panjabi: Gauri, Rahul and team, great numbers, great going. Two questions. One, the international side numbers have been pretty good, 23% growth. I'd love to hear a little more color on what's working within that? What's not working within that? And do you think that this growth rate can sustain over the next 12 months?

Rahul Sahai: Jeetu, this is Rahul. So thank you for your compliment. We are very focused on the international side. And what we are doing is we are taking a very close look on the kind of competition we have, the kind of products that we need to create to win those markets. And most importantly, what is the channel and distribution structure that we need to have.

So if you, for a moment, look at the investment that we made in Engines-LPG LLC, that is Wildcat, the brand. That is an outcome of one such analysis, and it is part of our Americas strategy. So there are different strategic moves we are making in different markets. They're seeing a positive payback of those initiatives and which is reflecting in some of the growth that we are seeing.

And we remain pretty committed to that thought process. Because unlike India and -- while we club it as International business, but each of these countries are fairly unique with their own dynamics. And a thorough evaluation is needed. So that's basically where we are. So we're being very, very deliberate about that process.

Jeetu Panjabi: Okay. The second question is Arka will add a INR5, 700 crore balance sheet there, AUM there. What is the plan going forward? And would -- do you think there'll be some kind of -- I don't know how to say, spinoff or whatever activity over there that we had talked about earlier?

Gauri Kirloskar: Yes. Thanks, Jeetu, for the question. Amit, do you want to you want to -- you want to answer and I can supplement if required?

Amit Gupta: Sure, ma'am. I'll take that particular question. So Jeetu sir, thanks for the question. As on 30 June 2024, the AUM of Arka stands at INR5,768. Currently, the capital adequacy and the capital requirement for the company is quite adequate enough to consider it for future years of operations.

My view, you are highlighting more towards recapitalization or further capitalization for which currently considering the debt of the company, we are still under levered as far as the 30 June position is considered. So currently on an immediate basis, we don't see further any requirement from that point of view.

Jeetu Panjabi: Okay. No, I was more alluding to saying that this company can stand on its own feet after it touches INR5,000 crores.

Amit Gupta: Yes.

Jeetu Panjabi: And more alluding to that point. Yes.

Amit Gupta: So more toward, we are working on that direction only. Ma'am, here, if you can pitch in a little bit.

Gauri Kirloskar: Jeetu, the way I would see it here is that these are conversations that happen and will keep happening. But it's a timing issue. It's depending on external circumstances and what we feel is best for the company at a certain stage. So what I say is, it's not off the table, but when there is the adequate update, it's only then that I can give it to you.

Moderator: Next question is from the line of Anupam Goswami from SUD Life. Please go ahead.

Gauri Kirloskar: Sorry, we can't hear you. Aditya, we can't hear you.

Moderator: Anupam Goswami.

Anupam Goswami: So ma'am, congratulations on a good set of numbers. My first question is on the -- how much of -- you mentioned about focusing -- or improving margin improvement by focusing on high horsepower products. How much are we doing in terms of revenue in that segment? And what's our target in that? That is number one question. And second would be, we now have seen our CPCB 4 proper transition. And from now onwards, what are the kind of market share are we currently having? And what sort of gains are we looking at? And how do we place ourselves in a leading position over there? If you can just touch upon that?

Rahul Sahai: Yes. So what I will say is that -- to answer the first part of the question, if I look at high horsepower, I will classify high horsepower as above 750 kVA in the power generation market. And in that market, we have very minimal market share. So that's almost like a blue ocean for us. If I look at 750 to 10-10, that market share would roughly be around 15-odd percent. So as we build out our portfolios, that's a clear opportunity for us.

Overall, if I look at Power Generation, our market share is currently between 29% to 30%, so about 1/3 of the market. And in CPCB 4, we have an entirely certified built-out portfolio that spans across diesel and natural gas, CPCB 4 certified. So we are hoping to gain market share with the rate that we have.

Anupam Goswami: Do we see any consolidation happening in this market share as in -- do you gain market share from the smaller players? Or are we more advantageous in this to, let's say, from only the leaders since the technology is a little complicated in that sense?

Rahul Sahai: So consolidation or some amount of consolidation may happen below 250 kVA, which is where bulk of the smaller or fringe players operate, but I don't necessarily foresee much consolidation happening beyond 250 kVA.

Anupam Goswami: Okay. And just last if I can squeeze in. Since you mentioned about improving your margins, where do we see the margins from here? What sort of a room do we have in your 2030 sort of plan, USD2 billion?

Rahul Sahai: So we remain committed to double digit. There is no specific numbers that we're giving out at this stage.

Moderator: Our next question is from the line of Prolin Nandu from Edelweiss. Please go ahead.

Prolin Nandu: I'm sorry to again prove you further on the margin part. Now I'm not asking you for guidance, right? But if I look at your Q1 margin for B2B business, and if I call out the onetime provision, there is a year-on-year decline in margins. And the 3 tailwinds that you mentioned, Rahul, in terms of international, the second was spare parts and the third -- or maybe after sales and the third was higher HP.

Both -- I mean all 3 are, in a way, tailwinds for us, right? All 3 are, in a way, growing at a faster pace than overall numbers. Despite that, this margin decline, if you can explain this? And again, maybe for the rest of the year or for the next couple of years, would there be -- I mean, more like a tailwinds to this margin level that we are currently? Or what are the headwinds, right? If you can explain as we go into FY '25 and '26? That's my number one question.

Rahul Sahai: So thank you for that question. I am -- I don't think there is any margin decline. So what data are you stating?

Prolin Nandu: I'm removing the one-off provision from this quarter's number, and then I'm looking at the B2B margin. As per my calculation, that is 11.53%. And last year for the same quarter, that was 12.69%. Even if I look at the stand-alone numbers, right, which was there in your slide, the -- I mean -- I'm not -- I don't have that right now in the front of me, but that also is not -- so I mean just to probably -- just if you remove the one-off, right, I mean the provision, this is a number that I'm getting. So that's the -- based on this, I have this question.

Rahul Sahai: So there was a decline of 40 basis points in the margin, and that was a mix impact, which will be recovering in the subsequent quarters because as we are moving towards CPCB 4+, which is a high-margin business, so we'll improve from there on.

Prolin Nandu: Okay. So you are saying that in the base quarter, the mix of CPCB was higher than what it is in this quarter?

Gauri Kirloskar: Sorry, can you repeat?

Prolin Nandu: No, I'm saying that you were saying the 40 bps decline in margin was because of the mix being adverse. And as we move towards CPCB 4, the margins will improve. So when I -- when you are looking at the base quarter, from there on that 40 bps decline has happened, was the proportion of CPCB 4 in our overall mix higher than what it is in the current quarter?

Rahul Sahai: So our last quarter, the CPCB 4 was higher compared to the same quarter last year. Having said that, there is also a mix of LHP versus HHP. So that is what we are talking about. There's a product mix change. There is nothing significant from a business operation standpoint. That is leading to a margin -- a 40 basis point margin dip.

Prolin Nandu: Right. Okay. All right. Because even if I look at your peer, right, and it's only fair for us to compare it with your peers. They have probably shown a significant increase in margins, right? So that was the base of this question, but I understood. So going ahead, Rahul, the conclusion is that there would be -- the 3 levers that you have talked about would work in our favour, right, as we go ahead in FY '25 and FY '26 as well. Is that a fair conclusion to make?

Rahul Sahai: That is fair. See, also one point to note is the same time last year, we had prebuy happening. So there was -- I mean, so the mix change was there. There was also some slight improvement on operating leverage. So I mean, some of those factors were there. But what I would say is it's not significant. It's not something that we'd be worried about going forward.

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

Mohit Pandey: So firstly, my first question was on the demand trend. So in response to one of the earlier questions, you indicated demand continues to be strong. So if you could give more color around any particular end markets that hold out? Is it like manufacturing or property business being the strongest demand? Anything that stands up for Power Gen?

Rahul Sahai: Sure. So we are seeing strong demand from Infrastructure and Construction segment across our Power Generation as well as our Industrial business. And also, if you look at some other end markets like railways, we are seeing significant opportunities, defense. So we are seeing strong opportunities across the board, I mean I am naming some key segments for us.

Mohit Pandey: Okay. So my question was particularly for the CPCB 4 offerings. So CPCB 4 offering is going into all of these, right? Is that understanding correct on Power Gen?

Rahul Sahai: Yes. So I think -- so this current quarter will be the first quarter of 100% CPCB 4. I would probably be in a better position to answer that question, perhaps similar time, but next quarter.

Mohit Pandey: Sure, sure. And secondly, if you could help us understand what would be the average price hike like-for-like CPCB 4 versus the previous project now?

Rahul Sahai: Sure. So we're seeing about 30% to 40% price change. There is significant scope addition. And we are closely watching the market dynamics play out. So we are being fairly cautiously optimistic as far as Power Generation is concerned.

Mohit Pandey: Understood, sir. And sir, last question is on the capacity addition announced in the press release. So this capacity would get added by what time frame? And where -- which segment of the market will it take us to 50,000?

Rahul Sahai: So you heard our Managing Director talking about the USD2 billion ambition that we have. In light of that, for specific product ranges, especially on the high horsepower, to augment our existing capacities, we have worked on this proposal and been approved by the Board. So that's where we are focusing on. So we are gearing up for the next 5 years. And bulk of this execution is going to happen over the next 2 to 3 years.

Mohit Pandey: Okay, sir. So is it fair to assume that commissioning will happen over the next 2 to 3 years? Or is there a phase-wise commissioning planning for this new facilities?

Rahul Sahai: So all the execution is going to happen over the next 2 to 3 years.

Mohit Pandey: Okay, sir. And lastly, just a clarification. So most of the business right now is under 800 kVA, right? So is that the right understanding from one of the previous questions on Power Gen?

Rahul Sahai: So our existing range starts from 3 kVA and goes to 3,000 kVAs with Optiprime. With a single engine option, it goes to 1,500 kVA. So we have, including Optiprime range that starts at 3 kVA goes to 3,000 kVA. So, yes.

Mohit Pandey: Understood, sir. Understood. And lastly, if it is possible. So you spoke about 4 technology track, right? So some color on the progress there. That would be my last question.

Rahul Sahai: Sure. So I'll just give a quick recap for everyone's benefit. We have 4 key technology tracks. The first track is on internal combustion. The second track is on energy solutions. The third track is on electrification. And the fourth track is on hydrogen, and when I say hydrogen, I mean fuel cells and electrolyzes. So those are the 4 main tracks.

In the last 3 years, we have made significant progress on the internal combustion track, which includes a patent on hydrogen internal combustion for power generation applications. So we have the patent for India. If you look at the second track, we have built out our own proprietary micro-grid, and we are in process of launching that.

If you look at the third track, on electrification, we're already present in single-phase motors and the ambition is to ramp up our capabilities. And if you look at the fourth track, there is significant work that we've done on the development side. I'm not in a position to talk about it at this point.

Moderator: Our next question is from the line of Sagar Parekh from One Up Financial. Please go ahead.

Sagar Parekh: Congratulations on good set of numbers. Just 2 questions. So first is you mentioned price hike of 30% to 40%, and you mentioned that the demand is still strong. So does that mean that the pricing level would sustain at this level?

Rahul Sahai: We're keeping a close eye on this. The call -- the existing -- the current quarter has started, will be the first quarter of full CPCB 4+. Market dynamics will evolve. So it's too early to comment on at this stage.

Sagar Parekh: Sure. But as of now, July has been over and August is starting. So right now, you're not seeing any kind of price pressure for now for CPCB 4?

Rahul Sahai: Yes. I won't be able to comment at this stage, unfortunately.

Sagar Parekh: Okay. Sure. And just my last question is on the follow-up on the capacity expansion, which we have announced of INR700 crores. So could you give some more color as to what kind of peak revenues and -- is possible from this additional capacity, which we are putting up on INR700 crores? And also you said that it's largely to do with the HHP products. So, if you can give some color on margins also, would it be like better margins? And also this -- like this current capacity utilization is 70%. So just some thought process on that also. We have enough capacity available to expand within our current range. So...

Rahul Sahai: Yes. Thanks for that question. So all the investments that we are making is in line with the ambition that we have set out for over the next 5 years. We stay committed to the double-digit margin. The 3 focus areas remain consistent. So focusing on high horsepower, looking at international markets and focusing on aftermarket. At this point for us to be able to comment beyond that would be premature, and it's also slightly proprietary. So I may not be able to comment beyond that at this stage.

Sagar Parekh: But any sort of color on what can be the revenues coming from this incremental expansion?

Rahul Sahai: So the overall 5-year revenue guidance has been provided. So it's in line with those -- with the guidance.

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

Teena: I have 2, 3 questions. One is related to, again, margins. So your B2C segment margins have been continuously improving over the past couple of quarters maybe because of increased volumes. Where do we see these margins settling at for the B2C division? And what is driving this increase in the margins apart from the incremental volumes and better cost absorption? Is there any kind of price hike? Or is there any kind of incremental change in the product mix that you would have done in B2C segment?

Aseem Srivastav: Yes. Teena, this is Aseem here. So if you see 2 years back, we came up with strategy called RACE. So we worked on this reach, which is about deepening and widening, then agility, then working on cash generation, cost consciousness and also on people. So that strategy is working fine for us. And because of that strategy, our margin is improving continuously. We are now very close to double digit, and I think we'll continue to be at this level going forward.

Teena: So this quarter margins were somewhere around 8.4% for the B2C division. So you intend to take it to somewhere closer to around 10% to 11% going forward?

Aseem Srivastav: Yes, that's our ambition.

Teena: Okay. And also, sir, on CPCB 4+, when you said that you would gain margins over a longer period of time, where is the scope -- what is the scope of indigenization in CPCB 4+? Because whatever cost increase that had happened in this transition, this would have come in the price hike? So where would this incremental gain come from when the market is purely CPCB 4+ based market going forward?

Rahul Sahai: So -- to start off with, I think, Teena, our existing portfolio is pretty heavily indigenized. There is some work that we're doing on the electronics side, which will further help. But the big margin improvement as far as CPCB 4+ is concerned will come in from the aftermarket and the kind of services that we can get from that -- the existing CPCB 4+ installed base. So that's the focus.

Teena: Okay. But that -- was that coming in only after the period of 1, 1.5 years, once the warranty or the in-built warranties get over?

Rahul Sahai: So yes, in terms of the basic service events, it will start after the warranty period gets over. You're correct.

Teena: Got it. Got it. And on the indigenization, is there a scope of another 5%, 7% more cost savings if you do a little more indigenization or there no a scope as of now?

Rahul Sahai: So there is potential, but I -- that's not something I would specifically focus on at this point. The big focus has to be on the market side and ramping up on CPCB 4+.

Teena: Got it, sir. Got it. And just lastly, on this export growth and how is the traction of the Optiprime product in the domestic market, particularly in FY '24 and in Q1 of FY '25?

Rahul Sahai: So exports, we're seeing pretty strong growth. And like I had mentioned in the call, we are being extremely diligent and deliberate about the strategy we are deploying in each of the regions. So it has been slower than what we had initially planned for, but we are confident that we are moving in the right direction. What was your second question?

Teena: On the traction of Optiprime product in FY '24 and in 1Q of FY '25.

Rahul Sahai: So we're seeing -- I mean, Optiprime is a relatively novel concept as far as the industry is concerned. And we have seen significant traction when we go and value sell the product. So there is an order board that we already have, and we remain committed to the Optiprime range, and we fully intend to leverage the strategic advantage it gives us.

Teena: Okay. Any number that would contribute to the corresponding fees of this Optiprime product last year?

Rahul Sahai: Any number?

Teena: Any number that you would attribute to the number of products sold in this Optiprime occupied category during FY '24? On a number of...

Rahul Sahai: I wouldn't give out a specific number, but what I can say is that we have -- last year, we sold Optiprime products right from 250 kVA to 2,000 kVA.

And to get -- or gain the confidence of a customer who's buying a 2,000 kVA genset, unless they're truly convinced about the product, they won't purchase it.

Teena: Right, right. And even in the current quarter also, you would have seen a similar kind of traction for this particular series?

Rahul Sahai: Correct. So we are seeing strong traction. We are focusing on a variety of things. Optiprime is definitely one of them.

Moderator: Our next question is from the line of Sourabh Arya from Oaklane Capital. Please go ahead.

Sourabh Arya: A couple of questions. The first is, I need some clarity on capex number. So for this year, capex was guided around INR400 crores to INR450 crores. And now we have announced this 3-year plan of INR700 crores. So just some understanding -- just to get it better. So in this year number already includes some number for 3-year plan or not?

Sachin Kejriwal: No, Saurabh. So this INR700 crores additional approval, which we have received from the Board will be a fresh investment over the next 2 to 3 years.

Sourabh Arya: Okay. That's fine. And second is what I observe is domestic sales have gone down. So obviously, that also had an impact on top line growth of the company. So any particular reason for that? Maybe is it related to shifting of factory, et cetera? And second, when do we expect this normalization?

Rahul Sahai: So Saurabh, if you see our main focus in LGM was working on the margins. And what we have done, we have actually worked on product mix. We have worked on the international business and correcting some of the things that need to be corrected in LGM. So in that process, what has happened in Q1, our sales were slightly down. But now going forward, you will see improvement, and we will be able to come back to decent growth in the domestic market also.

Sourabh Arya: Okay. So from here on, larger sales will improve even in domestic market, even though export have already been doing well?

Rahul Sahai: Yes.

Sourabh Arya: Okay. That is helpful. Maybe 1, 2 more questions if I squeeze in. One is on this -- what is the percentage of sales we had from CPCB 4 in this quarter?

Rahul Sahai: So in this last quarter, our CPCB 2 commitments to our customers remain to be strong. So we are trying to fulfil all of that. CPCB 4 was at approximately about 40%. But going forward, obviously, it's going to be 100% of our Power Gen portfolio.

Sourabh Arya: Sure. And now if you could also comment on channel inventory. So you can assume that your channel inventory at this moment is very, very low even for CPCB 4 before.

Rahul Sahai: So at this point, the channel inventory would -- the channel would focus more on CPCB 4 because we moved into 100% CPCB 4 era. And if you look at the notification, what it says is that post or as we entered this quarter, it is OEMs or end customers or their suppliers, which could be the channel or the respective OEMs. So everyone would try and optimize or minimize their CPCB 2 inventory holdings. So the focus on CPCB 4+ is going to be there across the ecosystem.

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

Gauri Kirloskar: Thank you very much for hosting the call, and thank you very much to all of the participants for dialling in and for all of your questions and interest in the company. See you next quarter.

Moderator: Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us, and you may now disconnect your line.