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“Kirloskar Oil Engines Limited Q4 FY2020 Earnings Conference Call”

June 26, 2020



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Kirloskar Oil Engines Limited
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Moderator: Ladies and gentlemen, good day, and welcome to the Kirloskar Oil Engines Limited Q4 FY2020 Earnings Conference Call hosted by Axis Capital Limited. 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 from Axis Capital. Thank you, and over to you, Sir!

Vaibhav Saboo: Thank you Rio. Good afternoon, everyone. On behalf of Axis Capital, I would like to welcome the management of Kirloskar Oil Engines Limited on the call. From the management, we have, Mr. Sanjeev Nimkar, the Managing Director; and Mr. Pawan Agarwal, Chief Financial Officer. Now I would request Mr. Sanjeev sir to give us a brief opening remark, and then we open up the floor for any Q&A. Over to you, Sir! Thank you.

Pawan Kumar Agarwal: Thanks. This is Pawan Agarwal, the Chief Financial Officer of the Company. Good afternoon, everyone, and thank you all for joining us on this call. I hope you and your families are safe in these unprecedented times. This is extremely challenging time for all of us, and our thoughts are with those most affected by COVID-19, particularly those who are on the front lines of this crisis.

Before I get into financial performance, I would like to highlight some of the ways we are responding to COVID-19. While we do not know how this will play out and how long this will go on, we will be transparent hereabout what we know today. Our first priority is to continue to provide our products and services in an uninterrupted way while providing a safe work environment to all our employees. We are incredibly proud of all that our company has been able to do over the past few months.

The need of hour for us is to ensure that we continue to provide our workforce with a safe environment, ensure that they can effectively work remotely, thereby ensuring their safety and well-being. Currently, we have majority of our workforce working from home across the company, including subsidiaries, except plant teams and, to some extent, the sales team, and for those who still need to go to office or into the market or branch offices, we are taking extra precaution and being extremely mindful of their safety.

On the customer side, we are proactively trying to service customers' orders through every possible mode. The customer care team is actively in touch with the customers via calls, e-mails and our business teams are reaching out to customers. We continue to be extremely prudent about our expenses and continue to strive productivity through utmost use of technology.

Kirloskar Oil Engines Limited

June 26, 2020

I would now like to discuss the highlights of our fourth quarter standalone financial performance. It might be an obvious point, but the quarter was actually and effectively in a way performance of 2.5 months, thanks to outbreak of COVID-19.

Our fourth quarter standalone sales at 700 Crores was 11% lower compared to sales of 787 Crores for the same period in the previous financial year. Total revenue from operations for the quarter stood at 711 Crores against 848 Crores in the previous year. Total income of 722 Crores for the quarter was 17% lower compared to 866 Crores for the same period in previous financial year.

EBITDA of Rs.67 Crores for the quarter was lower compared to EBITDA of 137 Crores in quarter 4 of FY 2019. PBT for the quarter stood at 61 Crores as opposed to PBT of 137 Crores in quarter 4 of FY 2019.

As far as full standalone annual financial performance is concerned, the company saw a year-on-year decline of approximately 9% in sales at 2841 Crores in FY2020. The total revenue from operations for FY2020 at 2877 Crores was 10% lower against FY 2019.

EBITDA for financial year 2020 is reported at 239 Crores vis-à-vis 351 Crores in the previous financial year. PBT for the financial year 2020 stood at 225 Crores as opposed to PBT of 336 Crores in the previous financial year. The company generated 295 Crores of cash from operations in FY2020 against 263 Crores in the previous financial year.

I would now like to briefly touch upon the financial performance of our three subsidiaries that is La-Gajjar Machineries, “LGM”; KOEL Americas; and Arka Fincap Limited. In the financial year 2020, LGM registered a little over 9% year-on-year growth in sales despite COVID-19. The sales grew to 453 Crores in FY2020 from 413 Crores in FY 2019. PBT for the year was 23 Crores versus 20 Crores of PBT in the previous financial year.

KOEL Americas sales grew from USD \$2 million in 2019 to USD \$2.5 million in FY2020, and it reported a PBT of more than USD \$129000 for the year FY2020 compared to approximately USD 85000 in the previous financial year.

Arka became fully operational since April 2019 and since then it has been delivering profits month-on-month. Revenue from operations for FY2020 stood at 48 Crores, with a PBT of about 10 Crores. KOEL infused nearly 500 Crores of capital in Arka in the financial year 2020.

Kirloskar Oil Engines Limited

June 26, 2020

At a consolidated level, the revenue from operations declined by 7% from 3636 Crores in FY2019 to 3379 Crores in FY2020, with a PBT of 331 Crores and 245 Crores in FY 2019 and FY2020, respectively.

With this financial summary and background, we may now commence the question and answers. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: My first question would be to understand a bit more on the genset side. What was the impact of slippages in revenues or loss of revenues because of the lockdown in the fourth quarter? As we draw for FY2021, what is the outlook for overall PG portfolio? Do we see the industrial business, especially demand from construction and real estate bottoming out and bouncing with government thrust on infrastructure?

Sanjeev Nimkar: I think there are three questions you asked in one question. So the first point is what we lost on the Power Generation because of the lockdown. It was close to 45 Crores we lost in Power Generation alone because of the lockdown because we had lots of orders lined up and we could not execute that during that time. That answers to the first question. Second, you asked how the outlook for the entire FY2021 is.

Renu Baid: Yes, on the PG and industrial portfolio both?

Sanjeev Nimkar: I will answer one-by-one. For the Power Generation side, right now, we have around 70% to 80% of our outlets opened up, but the transactions which are happening there are around 30% odd, not beyond that. I am talking as of June. The next quarter traditionally is a slow quarter,. So July - September quarter, generally, Power Generation is on a slower side, and then market picks up. But right now, with the unprecedented context around us, predicting Q3 and Q4 is tough, but our best estimation stands at maybe Q3 and Q4 will be same as last year. We will try to balance it out, whatever maybe the industry condition unless it is extremely tough externally. We feel Q3, Q4 should be okay. Q2 will be substantially down. Q1, obviously, there are hardly any interactions happened in Q1. So Q1, Q2 put together will be at least 50% to 60% lower than the last year. But Q3, Q4, we expect to be closer to or almost similar to the last year. That is our mission on the Power Generation side. Industrial side of the story is industrial has recovered back in the month of June close to 60%. Next three quarters, we expect it to move around 90% from July. We are hearing a lot of news from government that apart from their investments on the social sector this year, they will not cut down much on the infrastructure part of it, which has been the major driver for last 3 years. The infrastructure drive was a major trigger for our Industrial Engine

segment. So at least on paper, government is talking about that. A lot of news is around that side. Currently, we are at 65% to 70%. We hope we will end up around 90% in July.

Renu Baid: Sure. Sir, my question on the PG side is also to understand from an end market perspective, given that real estate sector has been significantly impacted. So from a qualitative perspective, what would be your comment on how the key end markets are there and which markets would actually revive earlier and which segments you think would continue to lag in terms of recovery through the next 12, 15 months?

Sanjeev Nimkar: Our estimation is, because new project activation will be on a slow track because of the labor problems and the social distancing norms to be followed, the demand side has significantly impacted. So in the recovery front, we will see the medium horsepower, which is generally we talk about, in our parlance, around 30 kVA, 40 kVA to 200 kVA. That will be the recovering fastest followed by the lower horsepower and then followed by the higher horsepower because in normal conditions, higher horsepower does not get impacted much. But looking at unprecedented situations now, the figure of higher horsepower will be the slower figure which will come, that is how it stands.

Renu Baid: Right. If I can ask one more last question, would be, can you share with us what were the volume numbers within the Power Generation segment for us, both in terms of the DV series and the HHP segment for us?

Sanjeev Nimkar: Yes, we can share with you later. We do have these numbers available, but we will share with you separately.

Renu Baid: Done, no issue sir. I have couple of more questions. I will get back in the queue. Thank you and all the best Sir.

Moderator: Thank you. The next question is from the line of V. Rajakumar, who is an individual investor. Please go ahead.

V. Rajakumar: Sir, my question is regarding the Arka Fincap. I understand from the balance sheet, I think, we have invested close to about 500 Crores in the subsidiary. Just wanted to know what is the strategy of getting into finance now given the kind of turmoil that we see in the NBFC sector? What is the sort of color and how it helps Kirloskar Oil Engine to get into this space at this point of time?

Pawan Kumar Agarwal: So the formation of Arka Fincap, as you know, happened in the previous financial year 2019. At the group level, we saw that there is an opportunity in NBFC space and the company had strong balance sheet, and we thought that we will be ideally suited to exploit

the market opportunities, especially in MSME segment, real estate and corporate lending space. That is how the Board decided to take plunge into this NBFC space and that is how Arka Fincap was conceptualized.

V. Rajakumar: Okay. But given the current turmoil, do you see, from a long-term standpoint, Kirloskar will be able to sustain in this field and make meaningful numbers because, I mean, I see a lot of even Tier 1 players struggling in this market. So I just want to know what is the kind of target, what kind of size you are looking at to grow this subsidiary?

Pawan Kumar Agarwal: Yes. So as you can see, we are taking measured steps as far as Arka is concerned. We have invested 500 Crores in the previous year. Although there was a commitment to invest further, but we have not put in additional capital in the company as of now. Even Arka is going very slow and taking very careful and measured steps in terms of lending. Arka's lent, as on March 2020, about 450 Crores and that is the loan book they have and they have treasury assets of about 140 Crores, which we are keeping as of now. Looking at the situation, till now, we have focused only on corporate lending and real estate. We have not started MSME yet. We are looking at the market very, very closely. You can see the revenue numbers; 48 Crores of revenue we have generated in the company in the financial year 2020 and we have generated 10 Crores of profit before tax. So we are taking extremely, measured steps in Arka, after assessing the market, and understanding the market. We are in no hurry, and we are taking careful steps in this direction.

V. Rajakumar: Okay. The second question is on, is there any chance for buyback given the subdued valuation the company is enjoying to, I mean, I see the valuation is quite specific given the history and the value behind the company. So I just wanted to know Board's thinking on those lines.

Pawan Kumar Agarwal: We are of the view that at this point of time it is not necessary to go for buyback.

Sanjeev Nimkar: No. On the other hand, we will be looking for a lot of new spaces for investments. So that it is the right time to look at allied spaces for further investments and growth of the company rather than the buyback.

V. Rajakumar: Thank you for taking my questions.

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

Renjith Sivaram: Sir, if you can just elaborate in under PowerGen, how much of the 750 kVA above we have sold and what has been the growth rate in that segment because that is relatively new for us? How has been the pricing in that segment given the overall environment?

Pawan Kumar Agarwal: So in DV series 750 kVA upwards in the financial year 2019/2020, we have sold about 100-plus, 109 to be precise, engines, earning revenue of about 41 Crores.

Renjith Sivaram: Okay. This was last year, how much?

Pawan Kumar Agarwal: Last year was 60 Crores revenue, 2018/2019, and the number of units were 159.

Renjith Sivaram: Okay. So we have seen an overall decline in the more than 750 kVA?

Sanjeev Nimkar: Yes. So last year, the market throughout the year was very, very slow overall. So that was one of the reasons. In the end, we were carrying orders of around, the overall orders were high, but executable orders in the month of March we lost execution of around 15 in number, because of the last minute close down. Post opening up now, the customers are not having funds. So that is another story. But overall, the whole year was slowed down on the UHHP and HHP side. If you look at the overall Power Generation market as such, at least market itself has declined by 7% to 8% last year.

Renjith Sivaram: Okay. How much would have been HHP market decline? Will it be in line with us or ours will be more than the market decline for HHP segment?

Sanjeev Nimkar: No, our decline will be less than the market decline because we have some published data of some independent agencies available with us, which indicates that as on year ended March 2020; KOEL has gained 2% of our value market share over last year whatever we have ended up. So that clearly indicates that our decline was lower than the market decline.

Renjith Sivaram: No, I am talking about specifically this 750 kVA above. Was there any impact in terms of the competitors reducing their prices and because of that we had seen a shift of market share towards the competition?

Sanjeev Nimkar: You are right. There was price pressure from the competition. We took certain calls that KOEL will not play the price game in the market, and that has never been our strategy in the market to play with the price. So if certain cases are very, very competitive, then we decided not to go ahead. So you are right, those costs we have taken. But overall, I think we are still holding market share of around 14% - 15%.

Renjith Sivaram: Okay. Sir, if you want to look at, we were planning to launch the 1000 kVA above. So what is the status over there?

Sanjeev Nimkar: The actual firing of the prototype engine and genset we have completed. But to make it production worthy, there are certain more endurance tests and things are happening at the back end side. But as of this moment, and we are also evaluating alternate options for the fuel system what we have deployed because our product is ready with the X type of fuel system. We are also evaluating Y type of fuel system which may be further cost competitive for us. So that work is going on. So looking at that, we feel at the end of this FY we should be able to place the pilot sets in the market.

Renjith Sivaram: Okay. Sir, finally, this new emission norms is planning to come. So lots of competition are putting up Capex towards this test sales and stuff like that. So what are we planning in terms of Capex towards these emission norms? Have we allocated some amount for that? How do we strategize ourselves to be ready for that?

Sanjeev Nimkar: Yes. I think it is a good question. See, you are aware that in this year itself BS IV emission norms are coming our way, which are meant for the Industrial Engine segment. Now for this BS IV, we had already deployed close to 60 Crores to 70 Crores worth Capex for BS IV transition. Now when we prepare ourselves for BS IV transition, which is fundamentally the CRDI technology, a lot of the test beds and things are commonly used for even the CPCB 4 also. So independently, for CPCB 4, we may be investing another 50 Crores odd investments, which are underway. But as of this moment, we are prepared for both the transitions. So BS IV which was scheduled to be in this year starting first of October 2020, now the circular of government, the draft circular is out, which is indicating it will be 1st April 2021. So it got postponed. However, CPCB 4 indication what government has given, circular is not yet out, but the indication whatever they have given that remains intact. So I think together, our Capex is already allocated. Out of that, BS IV we have already utilized, and that will be also useful for CPCB 4. Out of CPCB 4 Capex what we have allocated, maybe 25% we have already utilized.

Renjith Sivaram: Okay. Are we ready with the technology in terms of when it shifts to electronic we have the capability to move with the technology?

Sanjeev Nimkar: Already 1250 and 1000 are with electronic only. So already, we are in this new technology or CRDI electronic technology, we are operating in this domain for last more than 4 years now. So all the tricks of this technology, the company has mastered, and we are deploying that for even the BS IV and same would be for CPCB 4+.

Renjith Sivaram: Thank you, I will join for further questions.

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

Sandeep Tulsian: My first question is pertaining to the pricing decline that we were seeing in the industry. Based on the trend that you have seen over the last 5, 6 months, do you sense that undercutting or aggressive pricing practices have come down or not?

Sanjeev Nimkar: Okay. See, currently, the markets are very, very slow. So what we anticipate at this point that some lower kVA and medium kVA, some competitors may try this last minute price down tactics for some time because the capacity utilization even in commercial vehicles is very, very low. So some common players between commercial vehicle and this Power Generation domain, they may attempt on that side. However, our company is completely focusing on cashing on the value-adds what we have given to the customers in terms of iGreen offer. We have also come out with a 5-year comprehensive service package for the customer. So we are mostly sticking to that. So there can be some reaction from competition on the low-to-medium side. On the higher side, we do not anticipate much, but we may not react to that. We will try our tactics differently.

Sandeep Tulsian: Okay. Second question is pertaining to the share of hospitality as well as real estate in our overall PowerGen portfolio because these 2 segments have seen the sharpest kind of decline post COVID?

Sanjeev Nimkar: Yes. Obviously, so you yourself answered the question because these 2 segments are under tremendous pressure going forward. Hospitality, because of the current conditions and travel has substantially come down. But I am very happy to share with this group here that traditionally we are doing extremely well in hospital segment, health care segment. During this 3 months period, in spite of knockdown being there, we had to open up our warehouses, our factories, even our GM factories to deliver on an urgent basis gensets for the COVID hospitals which are coming everywhere. More than 200 such gensets were delivered only in the last 2, 3 months. Traditionally, we are holding a very good share in the hospital segment. Our service being the major driver there because having a wider network and very prompt service of KOEL on the ground so that is coming handy to us. In the health care sector, we are gaining share.

Sandeep Tulsian: But share of these real estate and hospitality not on a normal year?

Sanjeev Nimkar: This, it is not for only KOEL. This will be for the whole industry. If the hospitality segment itself goes down, so we cannot be doing anything about it and even for the real estate segment. But within real estate, we expect the commercial segment to bounce back quickly more than the residential one, and that we will try to cash in.

Sandeep Tulsian: Sir, my question is if in PowerGen sales that we are clocking on an annual basis. Out of those 1300 Crores. Of it, how much is real estate as well as hospitality put together is what I am asking?

Sanjeev Nimkar: That percentage is not readily in front of me right now, although we do track of that. But real estate and this hospitality segment should be anywhere up to 30% to 35%.

Sandeep Tulsian: Okay. Sir, lastly, if you could share those numbers of power tillers or DV series and electric pumps that you normally give in the call for 4Q as well as full year?

Pawan Kumar Agarwal: So power tiller, this year we sold 4076 units of Mega T. The comparable number last year was 4095. Which other number you are looking for?

Sandeep Tulsian: Sir, DV series volume as well as value that we share. I think the number we have last year was 2940 in terms of volume and we have 340 Crores in terms of value.

Pawan Kumar Agarwal: Okay. Yes, the HHP series this year, 346 Crores, number of units is 3406. Comparable number previous year was units 2939 and value was 338 Crores.

Sandeep Tulsian: Okay. This year value would be?

Pawan Kumar Agarwal: This year value is 346 Crores.

Sandeep Tulsian: 346 Crores?

Pawan Kumar Agarwal: Yes.

Sandeep Tulsian: And for the electric pumps within the standalone, how much we would have done for the year? We have the number for LGM, but wanted to check for this one?

Pawan Kumar Agarwal: Well, I can give you, it is 89 Crores this year, electric pump, and versus this the last year number was 68 Crores.

Sandeep Tulsian: Thank you so much sir, for taking my questions. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.



Kirloskar Oil Engines Limited

June 26, 2020

Ravi Swaminathan: Sir, I joined in a bit late. I just wanted to get your sense on the current run rate of the usual normal in each of the segments, that is PowerGen and lower, mid and high kVA and also the industrial and Agri business. How things are as of now?

Sanjeev Nimkar: Ravi, nice to hear your voice on this call again. Because you joined a little bit late, but I touched upon Power Generation and industrial already. That Power Generation this quarter is almost wash out. This month, we are doing a little bit, but still very, very low. Next quarter, we expect around 50% to 60%. Q3 and Q4, we will be back to the last year's number in PowerGen. Industrial, overall for the year, we expect to come closer to 90% of last year. This year is, overall I am talking about.

Coming to the Agri side of the story, that is the engines going in Agri segment as well as the electric pumps going in Agri segment, we are attempting to be on track with our the pre-COVID AOP, whatever the annual operational plan which we have built up. So end of this year, at least double-digit growth we will target for this segment in spite of current crisis. So we will still gun for double-digit growth for the Agri side of the story and will be for farm mechanization side. So in farm mechanization, the tiller business, we have good order board with us for the next 6 months. We expect we will have a double-digit growth in this business. The LGM side of the business, we also intend to be growing double digit.

Ravi Swaminathan: In terms of the HHP side in the PowerGen, so across infra, there is manufacturing, there is industrial, then real estate. How the traction has been? So I mean which is doing relatively better? If you can give a qualitative sense, it will be really great among the end markets.

Sanjeev Nimkar: So Power Generation, HHP right now, we are executing the orders only what we have selected before the lockdown that is one. Point number two is the new orders whatever we are collecting are fundamentally from the process industries that are the FMCG side of the story or selecting from the health care sector.

Manufacturing, infra industry or real estate are extremely slow, hardly anything was orders from that segment right now because a lot of labor migration has hit hard to this segment and the demand side is very, very low. Within LHP, MHP and HHP, MHP is a segment where we are seeing good traction in the market. So HHP and LHP right now, LHP, incidentally, there was good traction both in Western side and Eastern side. So that gives us some good quantity sales of LHP, but that was incidental. Overall, MHP is the segment, which is doing better.

Ravi Swaminathan: Got it, sir, got it. My last question is with respect to exports. So I mean, oil prices, etc., have been volatile. So how have customers responded from Middle East and Africa? If you can

talk about other geographies also which you are trying to foray U.S., etc., how the overall market has been?

Sanjeev Nimkar:

Yes. On the overall international, last year was a reasonably good year for us. We registered double-digit growth last year on international business. Our strategy is, whatever we had taken for ourselves in the international market, has come out well. For example, we focused on Industrial Engines in South Africa. So that market responded extremely well for us. So we registered extremely good growth there. Then on our firefighting segment, FM-UL domain, we are only third or fourth player globally to offer a big range. All across the world, from Middle East, from Europe, USA and even Southeast Asia, we have started getting good responses on our FM-UL range.

A lot of OEMs are giving us repeat orders there. So our strategy on FM-UL has started paying off. So that is a very telling thing. Even the acceptance of our HHP, that is a DV range in international market, is really good. So that is another strategic story giving us results. So that is on the last year's overall positive things on the international side.

Right now, what we are going through lockdown, unlock, all these things. So many of the international markets, Middle East as well as Southeast Asia and Africa, all of them are undergoing the similar way, but we expect with our strategies which have nothing to do with the lockdown because, and which currently China sentiment all across. So we expect some good movement in international market for our **FM-UL** engines, and even for Power Generation, but subject to those economies opening up. If the economy is closed down, then nothing can be done. But if it is open, we are expecting good traction.

Ravi Swaminathan:

Got it. My last question Sir, I mean, is there any trend of Chinese gensets being replaced by, I mean, any sentimental traction from different countries where Chinese gensets can replace with KOEL gensets in the LHP side?

Sanjeev Nimkar:

We are seeing similar traction, and we have received some orders from Middle East, which are a standard replacement of Chinese with our products.

Ravi Swaminathan:

Thanks a lot sir, thanks a lot for it.

Moderator:

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

Bhavin B. Vithlani:

Sanjeev, if you can talk about the agriculture as a segment, I think, it is closer to 1000 Crores and if you can give more the outlook on a 3- to 4-year basis, how is it that this

segment can actually grow and the initiatives that, as a company, we are taking to capture market share and increase growth?

Sanjeev Nimkar:

Yes. Bhavin, this is one of the strategies of the company to derisk our existing segments and also to relatively minimize the vulnerabilities of different, different segments. So you are aware, we have strategically gone into this LGM acquisition and that has worked out very well. So if you look at last year's performances of our different businesses, LGM is close to double-digit growth. In spite of last 15 days of March 2020, not having the sales because of lockdown, otherwise, LGM numbers would have been far better than what we have reported right now. Whatever strategies we have put it in LGM; they are coming out very good. The same strategies we are replicating in KOEL electric side of the story, and it is also paying off.

So going forward for next 3 to 4 years horizon, we are implementing verticalization as a strategy because right now, all those businesses there are clubbed together. But we identified that within the pump segment, there are clear 3 types of buyers and their buying profile is very, very different to each other. We have verticalized that in LGM. That is how we are able to grow there. So we have done the segmentation like there is an MMB to small pumps segment, we call it as a mini mono block kind of market, which is 3000 Crores, 4000 Crores kind of a total size of the market. So that behaves differently. Then we have submersible market and then we have agricultural pump side of the market. Each of these segments is close to 4000 Crores odd. So that is the size of the market.

So once we have divided this market, we align all our internal manpower as well as market channel, both side as per these verticals. That started us paying off last year and it will continue to pay off in the next 3 to 4 years. So my outlook on overall, we call this vertical internally as a water management solution vertical. So our outlook is very buoyant on this side in terms of implementation of our strategies, and we gaining share in that. In fact, even there, the solar pumps, what the government of India's big plants are there. So we are ready with our product portfolio, what is required for the solar side of the story. So we will be aggressively participating into that segment. Even the international acceptance of our brand as well as our products from the water management solution segment is extremely good. So we are also buoyant on that.

Bhavin B. Vithlani:

Understood. Just a follow-up to this question. Would the underlying growth actually look lower as the diesel segment is, as we have already highlighted, is getting disrupted so the overall headline growth of the agriculture as a portfolio looks low?

Sanjeev Nimkar:

Overall, no. This question is a little confusing. So you...

Bhavin B. Vithlani: So let me rephrase. The underlying revenues and the market of the diesel pump market have been declining. There is a substitution with the electric pumps and we have a reasonably large share of the diesel pump segment. Would the underlying de-growth in the diesel pump cap the overall growth of the agriculture?

Sanjeev Nimkar: Yes, yes. Because see, diesel pump is declining almost 15%, 20% every year. For example, 4, 5 years back, we were selling diesel pump around, let us say, within that, there are 2 segments in diesel engine pumps. One segment is going to the farm land and other is going to the small OEMs. So the small OEM segment, and this was like 130 Crores was going to the OEMs and around 140 Crores was going to the farmers, the agriculture space. So this 140 Crores of agriculture has come down to 40 Crores in the last 4 to 5 years. 100 Crores decline we have seen there, whereas the OEM segment of diesel engines pumps going there, which is 130 Crores, declined to 110 Crores. So we do not see OEM decline much. So it will sustain on that. But you are right that whatever 90 Crores we could get in the electric pumps, that has balanced the 100 Crores decline of diesel pumps.

Bhavin B. Vithlani: Thank you so much for taking my questions and best wishes.

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

Ashwani Sharma: Yes, my most of the questions have been answered. Just 1 question, Sir what would be the Capex number for FY2021 and 2022?

Pawan Kumar Agarwal: FY2021, we are looking at 70-75 Crores of Capex, that too basically to support the ongoing projects.

Ashwani Sharma: And next year?

Pawan Kumar Agarwal: That we are not in a position to confirm as of now.

Ashwani Sharma: Alright gentlemen, thank you.

Moderator: Thank you. Next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian: Sir, I have a follow-up on the cost side. We have seen a very decent control over fixed costs over the last 1 or 2 quarters. I just wanted to check what kind of cost cut measures has been implemented. Within our other expenses of say 5 to 6 Crores on a standalone, would we be able to control it or decline it from the current levels?

Pawan Kumar Agarwal: So as you rightly pointed out, there has been stringent control over various costs in the company, and we have taken a number of measures and obviously, the journey has started much before COVID-19 hit us. COVID-19 event gave us an opportunity to relook at each and every element of fixed cost, and we have taken a number of measures in order to bring it down further. So the overall sense that you are getting from standalone number, I think this is kind of 3% lower “other expenses” compared to last year. The kind of measures that we have taken, we expect the cost to go further down going forward, which you will see in the next year’s financials.

Sandeep Tulsiyan: Sir, if could you a little bit elaborate more in terms of have we trimmed the employee base or rolled out any salary cuts or within the fixed expenses what are the larger heads if you renegotiated some third-party contracts or some rental or some other variable expenses that you have been able to bring down over there, if you could highlight specifically?

Sanjeev Nimkar: I think, Sandeep, we have collected all the pieces together. So whatever you just mentioned, it is a combination of all these measures we have implemented in the company. Obviously, because surviving the institution is a top priority for all of us. So all these measures, what you just mentioned, we have implemented.

Sandeep Tulsiyan: Just 1 last question I have on the industrial side of business. If you could broadly give us a breakup of that between construction equipment, tractors, how does that look now? What was it compared to last year?

Sanjeev Nimkar: Right now. So last year, out of total 440-odd Crores, so close to 140 Crores will be the tractor side and 300-odd Crores is construction equipment.

Sandeep Tulsiyan: Sir, the reported number that we give is somewhere about 650 Crores for industrial?

Sanjeev Nimkar: That is including the exports. I thought only domestic. So that is including the exports.

Sandeep Tulsiyan: Okay. So the balance 100 Crores is export?

Sanjeev Nimkar: Yes. Yes. Correct.

Sandeep Tulsiyan: And last year, what was this breakup that you just gave us?

Pawan Kumar Agarwal: So let me give you the breakup of industrial segment. Last year, we got on a standalone basis 650 Crores of revenue, which had tractor contribution of 150 Crores roughly and other than tractor segment contributed 500 Crores. The like-for-like number for FY2020 is tractor

roughly 120 Crores and other than tractor 386 Crores, put together 506 Crores of revenue from industrial segment. This includes exports.

Sandeep Tulsian: Thank you so much.

Moderator: Thank you. The next question is from the line of Himanshu Upadhyay from PGIM Mutual Funds. Please go ahead.

Himanshu Upadhyay: Yes. My first question was in last few years we have already entered 3 businesses through pumps the La-Gajjar. We have entered finance business, NBFC business and, again, the tillers. We want to further diversify, and we are also focusing currently on exports. Right now, it seems we are getting. What would be the rationale? Why not focus on these 3 to 4 ventures, which we have already entered and grow our presence in those markets rather than investing in newer and newer dimensions before becoming market leader in the businesses where we have already ventured in last few years? Can you elaborate?

Sanjeev Nimkar: Yes, you are absolutely right. So whatever the 3 ventures we have done, the next expansions will be in the similar space and allied space only. It will not be completely absolutely new dimension. We may not go like that. It will be only allied or expansion within that domain.

Himanshu Upadhyay: Okay. One more thing was on the industrial side of the business, for the annual performance also, there has been a sharp fall, okay? If we see the larger peer in the industrial segment has been more flattish. For us, it has been for the year down 22%. Have we lost any OEM side of the business? Or traction are we getting on getting newer OEMs, means can you elaborate what is happening on this industrial side of the business?

Sanjeev Nimkar: First thing, we have not lost any OEM last year. Overall industry decline was around 27% last year. If you look at the published data, so decline was 27%. I do not know which player you are talking who remained flattish last year. I am a little surprised on that so almost every player in the industry has declined. Decline can be anywhere between 15% and 30% to 35%, can have change. Industry decline was 27%. Our decline is around 22%.

Himanshu Upadhyay: Sir, the largest player in the industry, they have reported a flattish type of revenue, okay, on industrial side in the quarterly con calls what they have stated, so, for the year, I am saying.

Sanjeev Nimkar: No. If you are referring to largest player like JCB or something, then it is a different story all together.

Himanshu Upadhyay: No, Cummins I am saying.

Sanjeev Nimkar: Their industrial is including railways and many other things. It is not apple-to-apple comparison of what industrial we are talking about. So you need to look at their composition of industrial. Our industrial means purely the engines which are going to construction equipment and earthmoving equipment domain. So we are very, very strategically clear on this thing. Market decline of 27% of this industry is externally published data.

Himanshu Upadhyay: And one more thing, in the exports which is 240 Crores what we have, what would be the bifurcation between PowerGen and the other engines, means for industrial or non-industrial?

Pawan Kumar Agarwal: Yes, the breakup of exports business segment-wise is Power Generation; we did register a growth of 12%. So that is about 116 Crores this year compared to 103 Crores last year. Industrial segment, we registered a growth of 34% in exports, 71 Crores versus 53 Crores. Agri, a decline of 9%, and customer support a decline of 8%. So overall, 240 Crores versus last year 214 Crores, which means 12% growth.

Himanshu Upadhyay: And the traction what we have seen in industrial on exports, do we expect the trend would be similar, so industrial would do much better than PowerGen? Why would the customer support fall Y-o-Y in exports, means just to understand?

Sanjeev Nimkar: It is a small segment. It is not a very large segment in exports.

Himanshu Upadhyay: But every year, when the population of engines what we have is increasing in export markets or the global markets, would not the customer support be increasing?

Sanjeev Nimkar: No. Customer support is a direct function of the utilization of the machines, actually. So if the machine utilization comes down, last year at least in domestic overall industrial segment was down because the utilization was down. Similarly, in some other international markets, if the genset usage is not there and industrial machine usage is low, it is directly linked to that because in this we do not get revenue of service. We get only revenues of spare parts because service goes to the local dealer who is there. So even if there are certain costs which are preventive maintenance costs which happen on service without spares being changed, then in our records it will not reflect. So the service revenue goes to the local channel partners, and we only get the spare parts.

Himanshu Upadhyay: Thank you from my side.

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

Manish Goyal:

Sir, couple of questions. First on the, if you can highlight, which even presentation talks about, the railways business, number one. Number two, on the larger engines business, which also has some part of the defense business. So if you can provide outlook on larger engine, railways and the defense business, please?

Sanjeev Nimkar:

Manish, coming to railways, last year, we sold around 75 Crores odd in Railways. This year, also, we have good order board. Only thing what we need to work around and we are pretty much on course on that is improving the margin side on the railways front because last year we were developmental player in railways. As we speak to you, we are already upgraded by railways to Grade A supplier. So we are Grade A supplier for railways. So it is a better status to be in railways business with this kind of status. So we have already achieved that. That is the point number one.

Point number two, we have healthy order board even for this year, and we will be improving our profitability in railways going inside in this year. That is on the railways front. Our outlook on railways is reasonably buoyant. To share with you, we are the first company in the railways fraternity to introduce IoT in our gensets whatever we have supplied. Railways as a customer they are extremely happy to use this technology because first time in the moving vehicles they are able to track the performance of their power cars. So very happy moment for us, and it has been well accepted by railways. They are happy with our performance.

Coming to your large engine side of query last year, we received a big order execution from defense side, which is under execution right now this year. Another big order is on the way. So we are gunning for the annual plan what we have made for the large engine side. Within large engine domain, we also introduced a range of 3 products 2 years back with fisheries, the small trolling boats, small boats. So these people buy kind of marine engines. So through large engine side, we subsidized. So this range is also well accepted in the market and our competition here is stressed to the Chinese brand. With the current context, the Chinese brand acceptance will go down. So we have very good positive traction on the fisheries range what we sell there as well as the defense order board what we have closed. There is quite a few orders are yet to be placed on us, but we are already L1 in that space. So, we are waiting for orders to be placed on.

Manish Goyal:

If you can just give us a sense, what is the size of these orders? Like you received a large order, you said last year and is under execution?

Sanjeev Nimkar:

Last year, the order which we have received is of 70 Crores. Another order of similar magnitude is in the pipeline. So another 60 Crores to 70 Crores. Once such big orders with

good margins if we get, it balances the business for that year. That means then we can look at it very long-term projects in this. That is what happened last year also, this year also we are expecting same.

Manish Goyal: So large orders, if you can clarify, like this is in under bidding or what is the status?

Sanjeev Nimkar: Out of this, almost 60% to 70% we have already billed in first quarter. So this is under execution.

Manish Goyal: And what are these largely for what application, sir?

Sanjeev Nimkar: So these are special projects which is EPC kind of a project, it is going into Navy and Navy has given a big contract to their PSU, through them, we have received these orders.

Manish Goyal: Just last question on overall, like our Agri portfolio. So in power tiller, what we saw was last year in FY2020, as per some market leader, that market has declined. I believe the market has declined to some just 40000 tillers, if I am right...

Sanjeev Nimkar: You are right.

Manish Goyal: So like, and one of the main reason was lack of subsidy. So how this market evolving now? Over here also, we have roughly 30% of the supplies from Chinese players. Third question is that we were earlier in 15 HP and we were planning to launch 12 HP and so if you can give us perspective, how are we positioned and how do we see the market dynamics?

Sanjeev Nimkar: First thing, you are absolutely right. Last year, market decline was around 20%. This market was 50000 odd, which has come down to 40000. We expect this year this market may go back to 45000 kind of level. Next year, we will touch 50000 back. That is our estimation.

Yes, this market is dependent on government subsidies and sometimes if subsidies get delayed, then it impacts them. But we are constantly gaining share. You are absolutely right, 15 HP was our flagship product there. We introduced 12 HP last year in this market. We have gained good numbers out of 12 HP. We are also further modifying this 12 HP with further cost-competitive product, which we will be launching in another 1.5 to 2 months' time frame in the market. It gets far more competitive to gain share. So at the end of this year, we are pretty confident that we will be clear market 2nd player in this market.

And we are also horizontally expanding some more product lines which are going into small farm mechanization domain. So when we look at this market, KOEL has clear strategic intent that we want to be a significant player, 2nd player in the market and a

profitable player, who will be providing small farm equipment. So obviously, as keeping tractors aside, other than tractors, whatever is required for the small farming, those equipment will be provided. So we will be expanding this product basket, and we will be a profitable organization here.

Manish Goyal:

Thank you so much.

Moderator:

Thank you. We have 1 last question, in queue. We will take the last question from the line of Anubhav Rawat from MNCL. Please go ahead.

Anubhav Rawat:

Sir, just wanted to know like to which all tractor OEMs do we cater to and in which HP segments?

Sanjeev Nimkar:

We have offering in almost all HP segment in tractor line. So there are quite a few OEM names we would not like to take here. But one big large OEM all of you are aware is PTL, so that is Punjab Tractor so traditionally, for a long time, consistent buyer of our products. So out of all my tractor segment, they occupy 85% of the value and volume. Other than that, other players take this from us and we have offerings as low as 25 HP to as high as 96 HP tractors.

Anubhav Rawat:

All right, sir. Understood. Understood. So sir, the Swaraj Tractor or PTL, I mean, how much of their engine demand would we be catering to?

Sanjeev Nimkar:

Anywhere between 15% and 20%.

Anubhav Rawat:

15% to 20%. Just one last question on this TREM IV, sir. So what is the latest happening? I mean, is it being pushed forward? There was some news flow, I mean recently.

Sanjeev Nimkar:

On what?

Anubhav Rawat:

On this TREM IV emission norms?

Sanjeev Nimkar:

So BS IV emission norms?

Anubhav Rawat:

Yes, TREM IV, sir. It is supposed to come in October. So is it being...

Sanjeev Nimkar:

I just talked about that. It was supposed to come on 1st October. Now it is postponed to 1st April.

Anubhav Rawat:

So has it been pushed forward, sir, has it been done?



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June 26, 2020

Sanjeev Nimkar: Yes. There is a draft circular out from government and it is expected to get converted into final circular.

Anubhav Rawat: Fine, understood sir. Thank you so much.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for any closing comments.

Pawan Kumar Agarwal: None.

Sanjeev Nimkar: I think we have covered everything.

Pawan Kumar Agarwal: Yes. Thank you.

Moderator: All right. Thank you very much. On behalf of Axis Capital Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.