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Enam Holdings Pvt. Ltd - Investment Analyst

JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst

Good morning, ladies and gentlemen. Welcome to the Kirloskar Oil Engines Limited Q1 FY '20 Results Conference Call hosted by Axis Capital Limited. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to (inaudible) from Axis Capital. Thank you, and over to you, sir.

Thank you, and good morning, everyone. And welcome to the quarter 1 FY '20 earnings conference call for Kirloskar Oil Engines Limited. From the management today we have Mr. Vinodkumar, the Chief Financial and Human Resource Officer; and Mr. Sanjeev Nimkar, the Chief Operating Officer. Mr. R.R. Deshpande will be joining us shortly.

Now I will hand over the call to management for the opening remarks, post which we will open the call for question-and-answer around. Over to you, sir. Thank you.

T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [3]

Thank you, and good afternoon. Sorry, good morning, ladies and gentlemen. I'm so used to the afternoon. And let me present to you and discuss the results of the first quarter of 2019-'20 for Kirloskar Oil Engines Limited.

Well, the ominous signs of an economic slowdown were being seen towards the end of the last quarter. But we thought that as in every election cycle, government spending and expenditures normally occur and, hence, the mood continues to be upbeat, and the general sentiment was that of post elections, things will improve.

However, it looks like that is not to be. The liquidity crash in the market is being felt severely, and this, together with a slowdown in government infrastructure projects has definitely resulted in projects being deferred or delayed. Consequently, while the order book hasn't shrunk, our pace has certainly been impacted in Power Generation and even more so in Industrial Engines.

With that, sales for the quarter at INR 756 crores was 7% lower than the previous year figure of INR 812 crores. You must remember that we did have a good quarter. First quarter of the previous year was good, and it was specifically good for Power Generation also.

And we are also sequentially lower than the quarter 4 by 4%. While most businesses were down, we grew by 10% largely on the back of good Electric Pump sale, and consumer spares business grew by 5% on the back of enhanced revenue from abundant sales and [REMP].

For Power Generation, as against INR 39 crores of (inaudible) models serviced in quarter 1 of the previous year, this quarter was a mere INR 3 crores, and this was essentially the value difference which we see between the quarter 1 of this year and the quarter 1 of last year. In industrial business, there has been a noticeable slowdown in the infrastructure which has resulted in lower offtakes.

EBITDA for the quarter was INR 73 crores and at 9.7% of sales as against 10.1% of the previous year. Focused efforts continue to remain to improve efficiencies and keep costs under tight leash. Profit before tax for the quarter was INR 67 crores as against INR 74 crores in the previous year, same quarter. And cash generation from operation was INR 95 crores.

In the Board meeting of Kirloskar Capital held on 31st July, based on permission received from the RBI, the company decided to change its name from Kirloskar Capital Limited to Arka Fincap Limited. This change was affected from 1st August 2019. KOEL had made a further investment in Arka between in quarter 1 to the tune of almost INR 500 crores. And with that, the total equity contribution now stands at INR 527 crores in Kirloskar Capital.

As you're aware, with effect from quarter 1 of this year, we will be reporting results of our subsidiaries also on a quarterly basis. On a consolidated basis, that is also including LGM, KOEL Americas and Arka Fincap. Net sales stood at INR 890 crores as against INR 931 crores of the previous year, which is a drop of about 4%. The good news is that LGM sales at INR 131 crores grew by about 6% as compared to the previous year.

I'm not dwelling specifically on KOEL Americas or Arka Fincap because there is not much of traction in either of these companies. Although in Arka Fincap, they have on short-term basis lent about INR 250 crores in the first quarter, but it's purely based on short-term lending based on policies which they review from time to time.

I think with that, we'll open up to questions. Thank you.

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#### Questions and Answers

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Operator [1]

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(Operator Instructions) The first question is from the line of Sandeep Tulsian from JM Financial.

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Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [2]

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So if you could just give a brief commentary on the PowerGen market, how the growth rates differed between different nodes in LHP, MHP and HHP? And is the market share move for Kirloskar Oil in each of these different categories?

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [3]

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Yes. This is Sanjeev Nimkar here. Power Generation, as Vinod just mentioned, that there is a decline in this quarter over the last quarter in Power Generation primarily on the telecom side. Because in Telecom segment, there was only one player who was significantly playing that key role, and they had decided to slow down for the last 2 quarters, so that has impacted on the Telecom side.

Coming to LHP, MHP and HHP, most of you must be aware that this is the second quarter that KOEL had launched the iGreen series of products in the market and which has got up the momentum in the market. So LHP, MHP, the market shares, which are just published a week or 2 weeks back, we have gained in LHP, MHP in the marketplace. HHP, also we have gained market share. So as far as market share is concerned, we have gained the market shares in the 3 segments. So that is as per the published data. But however, the market themselves have slowdown, so that's the reality.

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Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [4]

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Okay. Somewhat, if you could briefly touch upon how much was the Telecom sales last year 1Q. And...

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [5]  
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I mentioned that, Sandeep, it was 36..  
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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [6]  
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39.  
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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [7]  
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INR 39 crores this quarter 1 of last year, and it is INR 3 crores in the quarter 1 of this year.  
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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [8]  
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So the INR 36 crores gap between last year to this year in Telecom alone, so that has impacted significantly the same.  
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Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [9]  
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Yes. Got it. And sir, if you could share the numbers that you usually provide for DV series in terms of volume and value.  
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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [10]  
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DV series. We are now talking only of DV and not about the ultra HHP, yes?  
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Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [11]  
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Yes.  
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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [12]  
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So the number is 282, and value is 48.  
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Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [13]

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And what is the corresponding number for 1Q last year, if you just give us that?

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [14]

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301 and 51.

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Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [15]

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And last question from my side is on the capacity utilization. If you could just highlight at what utilization on an average across plants are you operating? And what is the...

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [16]

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What across the plants? We've got only one plant.

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Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [17]

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Yes. What is the average utilization at that plant, sir?

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [18]

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Today, it's at (inaudible)

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Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [19]

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Any maybe just CapEx that you have for the current year? Nothing?

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [20]

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No.

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Operator [21]

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(Operator Instructions) The next question is from the line of Riya Mehta from Anand Rathi.

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Riya Mehta, [22]

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So the first question will be looking to traction in Large Engines, so what happened? And what's the environment like in the Large Engines segment?

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [23]

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In the Large Engines, actually, we were expecting 2 big orders actually from the last 2 quarters. And unfortunately, we're like we are very sure of getting these orders but got postponed because of the government-related delays and little bit funds, available fund -- allocation rather. Availability was always there. So most likely, we're about to get this in this month for one of them. And another will be maybe end of this thing, so which will balance it out. So whatever projections were given for last quarter, because of these order delays, we could not be alongside that.

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Riya Mehta, [24]

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Okay. Apart from these, any -- these last 2 orders, do you see any other traction or new guidance for the Large Engines segment?

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [25]

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You may be aware in the last quarter meeting, we had mentioned that fishery segment to us, along with the marine -- marine goes into a little higher set of thing, but the fishery boat, the [dolos] we have given good product range to this Large Engines business group. Actually, the Large Engines business group is a combination of Defence and Marine together. So it is large engine as well as small engines going into the marine and fishery segment. So that segment has got up very good traction, so I mean we are very fast gaining market share in that. And our acceptance of product is very good. We have launched 6 number of products in that segment, and the customer feedback is very good. So that's one good news.

Second part here is on our spare parts business. So we also got lot of clearances required which were delayed. So there is a good amount of spare part business comes in this segment, so that is also clear now. So this quarter, we can expect that.

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Riya Mehta, [26]

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(inaudible) the revenue which is coming from the fishery and marine segment?

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [27]

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So percentage to what, percentage to LEBG, percentage to KOEL?

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Riya Mehta, [28]  
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KOEL.  
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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [29]  
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Percentage to KOEL will be very small actually because it is just getting. In a full-fledged scenario, we can see the fisheries business going to INR 30 crores, INR 40 crores in a fully [dolop] scenarios.  
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Operator [30]  
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(Operator Instructions) The next question is from the line of [Chandra Moli] from [Partisan Securities].  
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Unidentified Analyst, [31]  
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How is the (inaudible) Capital, what is the segment that you're planning, sir? (inaudible)  
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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [32]  
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Sorry, we cannot -- couldn't follow the...  
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Unidentified Analyst, [33]  
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The Kirloskar Capital, now that the name has changed to Arka Fincap, what is the segment that you are targeting, sir, what is the plan going there?  
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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [34]  
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So that is possibly be that's a completely independently run company. We have -- none of us sitting in this room are involved in the day-to-day running of that company. So we have a CEO, Vimal Bhandari, and he has the entire team. And yes, to the extent there is that 100% certainty we will look at it. I would say in line with the Kirloskar -- let's say the ground framework itself, we are going to be extremely conservative firstly in our lending. As we open up and as the issues which are currently there with all the NBFC, we actually look at it as an opportunity because we feel that unlike many of the others, here, in terms of availability of funds, it's not an issue at the moment.

But that having said, we're going to be extremely cautious in the way we are going to be lending. In the medium term, what we'd look at doing is lending to SMEs and MSME. Currently, non of the lending has gone for medium or long term. It has gone purely short term and mostly in terms of companies where they have borrowed so much for short term (inaudible) with a clear plan in mind in terms of -- so it's nothing more than 3 to 6 months as of now.

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Unidentified Analyst, [35]  
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I understand. I understand. Sir, what is the ROE that you expect (inaudible)?  
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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [36]  
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Your voice is very unclear. I'm not able to understand.  
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Unidentified Analyst, [37]  
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No, no. What is the return that you expect to...  
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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [38]  
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It's too early to talk about that. And like I said, it's an independently run company, and...  
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Unidentified Analyst, [39]  
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Sir, so how would the market (inaudible)?  
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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [40]  
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I'm not able to understand.  
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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [41]  
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No, no. Not clear on this question as well. Can we...  
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Unidentified Analyst, [42]  
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Hello. Can you hear me?  
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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [43]  
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We can't understand.

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [44]  
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What is the question, please?  
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Unidentified Analyst, [45]  
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I'm -- what is the overall market? After the last quarter, because there is the election period, how would the overall market. I'm talking about the overall Kirloskar Oil Engines, sir.  
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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [46]  
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If you look at the current situation in the market, so as what you people are reading in the newspaper and what we are experiencing, there is not much of a difference in that, so there is a sharp slowdown we are experiencing on the construction equipment side. However, the Power Generation side is not that big a slowdown, but we are seeing good order booking. But at the same time, the execution is in question because of the liquidity crunch. So customers are booking the orders, giving some little around spread. But the -- when actually, they're supposed to leave the (inaudible), that time, they're delaying it. So that is what we are experiencing there.

The LGM business as well as our own electric pump so at Kirloskar side, both are moving well. So last quarter was good, and this quarter is also expected to be better on that front, the Agri and the LGM piece of it. LEBG as I said sometime back, with these 2 orders coming in, we should be okay as on the coming quarter. So that's the situation, but we hope situation to improve in Q3.  
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Operator [47]  
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The next question is from the line of Sandeep Tulsian from JM Financial.  
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Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [48]  
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I had a couple of follow-up questions. In the consolidated revenue that we have given the break up, what is the others segment primarily pertaining to? Like we have engines, pumps, financial services, and then we have others.  
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Unidentified Company Representative, [49]  
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The Agri tractor.  
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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [50]  
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This is farm mechanization.

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [51]  
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Actually, well, the farm business.

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [52]  
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(inaudible) farm mechanics.

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Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [53]  
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Okay. All right. And sir, if you could just help us to understand what was the quantum of decline in construction equipment during the quarter.

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [54]  
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Around 17%.

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Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [55]  
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17%. What is the outlook over there going forward for the current financial year?

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [56]  
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See, we are expecting with this entire segment last 3 years was primarily driven through government money coming into the infrastructure order id of it. So we are expecting Q3 government will release some funds there because the contractors -- the big contractors who are operating in this segment, their payments are stuck up. That's what we are hearing from the market, and this is having a cash-carrying effect till our level. So once the funds do improve at the one side, we hope this will go back so next 2, 3 years. In a long range, we are very optimistic on this segment, but maybe this quarter and next -- the last quarter and this quarter, we are a little down on this segment.

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Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [57]  
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Okay. And on PowerGen, on a full year perspective, do we expect to do a high single digit kind of growth?

Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [58]

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Lower single digit or mid of that, kind of 5%, 6%, we can look at it.

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Operator [59]

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(Operator Instructions) The next question is from the line of Manish Goyal from Enam Holdings.

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Manish Goyal, Enam Holdings Pvt. Ltd - Investment Analyst [60]

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My question is pertaining to La-Gajjar. I believe in the segmental numbers, what you have provided, it shows that quarterly revenues are up 14% while profits are also, at PBIT level, 14%. Somehow, this margin seems to be on the lower side. What was probably indicated during the time of acquisition?

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [61]

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Well, you are right, Manish. You're closely right because, let me tell you, it's a little bit of a funny situation we've had, where actually, we've dispatched material to our OEM, which is (inaudible). But the way it is in terms of revenue recognition, we did not recognize those revenues because it wasn't the real price, the customer before we book. So we couldn't book the sale. Okay. And as a result of which, you got stuck with -- I mean the stock was also there in our book. But -- so what I will say is that you look at -- when we look at the first half as a whole, we're reasonably confident that at least LGM has play out the way we looked at it in our budgeting exercise. And we would -- hopefully we assume we have the double digit number in the first half.

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [62]

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Both revenue as well as...

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [63]

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No. Revenue will play out the way we expect it to play out. And the EBITDA numbers also should be in the double digit.

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Manish Goyal, Enam Holdings Pvt. Ltd - Investment Analyst [64]

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So you are saying double-digit margins in second half?

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [65]

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No, no. I'm saying first half as a whole.

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [66]

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H1 as a whole.

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [67]

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H1. It's going as per plan, Manish.

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Manish Goyal, Enam Holdings Pvt. Ltd - Investment Analyst [68]

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Okay. And you mentioned that top line would also grow in double digit.

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [69]

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(inaudible) we could look at only 1 quarter and isolated (inaudible) segment, it was more...

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Manish Goyal, Enam Holdings Pvt. Ltd - Investment Analyst [70]

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We know that just generally seeing, we know that I mean generally seeing even last full year, the margins were quite low. And so...

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [71]

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No. While you say the margins were low, the total loss of...

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [72]

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INR 19 crores.

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [73]

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From a loss of INR 20 crores, you made profit month per month. You ended in the previous year of INR 20 crores. So the (inaudible).

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Manish Goyal, Enam Holdings Pvt. Ltd - Investment Analyst [74]

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No, no, I am not disputing the recovery and the...  
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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [75]  
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(inaudible) The point is that unless you invest -- I am not talking of capital investment. Unless you make some investment, you're not going to get a return. So we believe that at the back end, we've done some investment. At the front end, we've done some investment. And over a period of time, we'll be able to catch up on this because it will try to short circuit the cross-sell. Should we be 2%, 3% higher? The answer is yes. So if you look at next steps, right now, we are operating from 4 or 5 different locations in -- on the world. And that's the way we had whatever the business. But if you recall what I said right at the beginning, we have not bought land and buildings. Okay? And right, as we speak, we are in the process of finalizing the land. And over the next year, we will construct and consolidate our entire facility into one single place.

My gut -- very early will say. My gut that (inaudible) should be 2% to 3%. So as I said, don't look at very, very short term. We feel -- in fact, for us, we think that it is one of the businesses which is completely going the way we are intending it to go. Where we would like to focus now is also built up on the (inaudible) and over a period of time make some traction in the south markets. We are -- in fact, our written agreement -- so even things -- the cost development according to diesel I'd be more happy to talk to you one-on-one also. But our implementation is on track, October now which we'll go live in Oracle. So all the system which we are putting in KOEL, I mean, it will definitely hit there, whether it is on the (inaudible) system, whether it is on the financial systems. So all this -- nothing comes free. So make sure you understand that given the cost to get (inaudible) existing volume. But over a period of time, this will start to pay out.

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Manish Goyal, Enam Holdings Pvt. Ltd - Investment Analyst [76]  
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Sure. Appreciate that. So just how is the electric pump market growing? And how do you see that as the pump market as a whole? And are we gaining market share there?  
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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [77]  
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See, electric pumps market, I mean all of you are aware that it is a strategic move for KOEL to balance out the decline happening on the other side. And currently, if you look at our Eastern parts and some parts of North, the electrification in those markets like UP, BR, Jharkhand, is immensely helping this business. So this business is extremely bouyant in those markets. Whereas in South and West, the business is stable. When I say stable, it is growing at 8%, 10% CAGR level.

Now when it comes to our own standing, we are approaching this market through a 2-prong approach right now. One is the LGM side of it, going to the market with our Governor brand. There is the KOEL Electric going here. And both sides, were growing extremely good. So KOEL Electric, we almost double our turnover this year compared to last year. Of course, the base was low. And in LGM, we are maintaining this 14%, 15% kind of growth there.  
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Manish Goyal, Enam Holdings Pvt. Ltd - Investment Analyst [78]  
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Okay. And last question on the other segment, which has farm mechanization power dealer. So just over there, we continue to see losses. And in fact, last year also, the number was INR 22 crores loss. This quarter, it's also a number. So just if you can guide as to how do we see going forward what are the breakeven levels and things.  
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Rajendra Ramchandra Deshpande, Kirloskar Oil Engines Limited - CEO, MD & Director [79]

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Yes. Manish, against last year, definitely the numbers have grown by 15%. And what we are looking for is, I can say, a new product which is 12 horsepower, which is the biggest market because we have, what, 15 horsepower. That is -- we have got 60% market share. But the point is the major market is of 12 horsepower. Where the product -- the right product we have to actually give it to the farmer. Right now, whatever is the product is the availability of 15 horsepower. So I'm looking for it. And I think in the second half of this financial year, this product will be available in the market. So what we feel is the numbers will start growing up in the second half.

And what we are looking at today is we are at actually market share-wise in the #1 and the #2 position, but there is a huge gap between #1 and #2, which we want to actually close it. And I'm sure at the end of the year, we should be at, I can say, 20% market share. So for that, we have to really, I can say, speed up the new product development process and bring this product into the market and get the subsidy done for this new product as well. These are the 3 clearances for the old product. The new product will come that's 2 months' time, and then we will be start actually building up the numbers. So at the end of this financial year, you will see this business unit into the breakeven level positively.

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Manish Goyal, Enam Holdings Pvt. Ltd - Investment Analyst [80]

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Okay. And are we seeing very strong competition from new Chinese player which has priced the product quite low and disrupting the market in the PowerGen segment?

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Rajendra Ramchandra Deshpande, Kirloskar Oil Engines Limited - CEO, MD & Director [81]

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No, no, no. See what happens is in the today's circumstances, if you look into 90% market is subsidy market, and direct entry of Chinese product into this subsidy market is not allowed. And that's why actually if you see our -- all our Indian players only are into this business. And in the retail, maybe some few numbers are there, but point is, ultimately, when 90% business is all subsidy, I think the -- it is -- I can say there is a definitely, I can say, problem for a Chinese product to enter into this business because government is also putting, I can say, entry barriers for Chinese product into this particular segment.

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Operator [82]

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The next question is from the line of [Gagantarin Jas] from Kotak Investments.

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Unidentified Analyst, [83]

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And so the first question centers around the liquidity issues that you pointed out, has affected the market. Have they also impacted adversely your working capital in terms of receivable days and inventory days?

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [84]

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Not really receivable days, because we haven't seen that credit quality at all. But receivable days, what affect it was different days. And in fact when we started selling both in telecom as well as power car, which is railways business, the terms of credit are quite different from what we are selling in for the normal PG

segment. So that has -- in fact, if anything, if you look at between March and June, our working capital position has improved.

So we are not worried about that. And what we are probably going to do is that -- I think already with what I've done of a pull system and the push system. So inventories by and large are under a pretty tight control. We -- if you look at the end result that we've placed in the market (inaudible) it is completely at backlog to serve these people. So the inventory here, we're not too worried. (inaudible) So on the whole, no major barrier on receivable. If we start mindlessly extending credit and (inaudible) obviously, then we have problem. But here, very clear we will not follow that path.

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Unidentified Analyst, [85]  
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Okay. The second question again, if I stack up your reported growth and commentary on the results of the quarter vis-à-vis your closest peers' domestic growth and commentary, and also vis-à-vis the commentary of the (inaudible) companies on their industrial segment's growth or maybe the commentary of a Siemens or ABB or a Thermax, there is a contrast between the growth that you have reported vis-à-vis these people. The (inaudible) company on their call seem to have been positive on the industrial segment. You are saying that on the margin, things are further deteriorating. So I understand that the business lines could be somewhat different, but at the end of the day, they might all be servicing a common pool of customers also. So where is the disconnect?

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [86]  
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Mostly, we're not servicing a common pool of customers. (inaudible) yes, we have one but that isn't the same.

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Unidentified Analyst, [87]  
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ABB has grown. If we look at their scales (inaudible) their bearings and industrial segment have grown. Their commentary on the industrial side was very positive -- or it's not very -- at least positive. Your closest competitors in industrial segment has grown, and their commentary on the industrial part was also positive. So I was just trying to compare and contrast and understand where the difference lies.

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [88]  
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Take on the industrial.

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [89]  
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Yes. See, the industrial segment, whatever we cater and what our competition cater, there may be gaps or the customers may be different. But where ever we are addressing our industrial segment, especially that mowing segment, compactors (inaudible) or the transit mixers, self-loading transit mixers, some of these segments we hold almost 90% kind of a market share in that segment, maybe a compactor or a transit mixer or things like that. And in some segments, we are holding 40%, 50% market share. The unfortunate part is last month and last, last month, most of our OEMs had taken a block (inaudible) of 5 days, 7 days. And this is in public domain. This information is in public domain. Whereas we have a balanced portfolio, so we are still not going to any block (inaudible) kind of thing, and we are balancing it out. But the situation, especially on the industrial side, is not that good.

Coming to whatever 2, 3 names you referred, probably some big projects are happening in their industrial segment, and that can help trigger some sales there. It can happen. But when we are talking about our customers and our OEMs, so we are definitely taken cognizance of what is happening in the front-end side.

Not only that, we do have a mechanism of monitoring the tertiary sales of all our OEMs' dealers in the marketplace. Because ever product gets sold in the marketplace gets registered in our care center for the service of that and the warranty purpose. So we get very early signals of what is happening in the marketplace. And at that level, as on yesterday, we are seeing YTD, 35%, the consumption decline.

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Unidentified Analyst, [90]  
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Okay. Then my final question is that what is the underlying rationale or cause to believe that things could take a turn for the positive Q3 onwards?

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [91]  
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I already mentioned that I think a few minutes back. Look at it, what was the cause of the trigger for last 3 years. It was primarily the government funds (inaudible) were allowed. It was not the private sector which has fully gained. So all of us are aware of that, and those funds have died down. The moment government organizes those funds and they are working around that, so we expect another 3 months down the line the fund availability may not be to the level of what it was maybe a year back or 2 years back, but it will be much better than what it is right now. So -- and even if something they work around the -- giving NBFCs also little leeways on way of working on operations, the -- even though fund availability at the customer end, because a lot of these equipments are bought on the higher purchase kind of thing, so there also, we can see a traction. It will be pull and push, both sides. So government funding will help the contractors to get some funds in their hand. And for NBFC kind of a thing that cleared up in the way of working, it will help to pull at the customer level as well.

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Unidentified Analyst, [92]  
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But to what extent would your sales, to what proportion would your sales be dependent directly on the government-funded sectors, so to speak, so that once those bottlenecks are out of the way, to what extent would your sales be government?

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [93]  
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In the industrial segment, close to 50% of our OEM are dependent on the government funded, so 50%. So remaining 50% we'll be able to balance. And even that 50% which is government dependent, it is not completely down. It's a slowdown. It is not 0.

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Unidentified Analyst, [94]  
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Okay. But on PowerGen, this will not have an impact? Or even on PowerGen, this might have an impact?

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [95]  
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The overall slowdown of the GDP or economy as a whole has impact on PowerGen as well. I said that in PowerGen especially HHP side, we have good order book but not able to execute that order book. So it is -- the execution is getting postponed. So that's the thing which we are seeing.  
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Operator [96]  
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The next question is from the line of Riya Mehta from Anand Rathi.  
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Riya Mehta, [97]  
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Sir, I would like to have an update on how much do we expect to fund more to the Kirloskar Capital?  
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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [98]  
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As of now, nothing.  
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Riya Mehta, [99]  
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We have no plans there in the year for...  
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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [100]  
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Nothing now, because we will start looking there, also start looking at the lines of borrowings. So there, we're in touch with the banks, et cetera. So for the moment, nothing.  
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Riya Mehta, [101]  
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Okay. Because I was aware that on the previous sum -- or the expectation you have given that you are -- in the Board meeting, you had apportioned a -- approval was there for a larger amount than what we have already allocated.  
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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [102]  
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Yes. So there is an approval, but that doesn't -- but like I said, there's no plan to lend out further at this point of time or invest in equity at this point of time.  
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Riya Mehta, [103]



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Okay. And as regarding to KOEL America, do we see it to get back on this FY '20?  
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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [104]  
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As far as KOEL America is concerned, if you recollect, last 2 calls, we had continuously mentioned that we are working out on our few model to be qualified for the EPA approvals. And I'm happy to share that we have already got the EPA approvals. Not only that, but the first production batch has already left Indian shores last month. And within 1.5 months, they will be in the U.S. and will be -- our network there is already established, so the first batch has gone. So we will be keenly looking forward to settling down this product in that market and then take it forward. So next few quarters, we will have a good focus on KOEL Americas as -- in the process of establishing there.  
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Riya Mehta, [105]  
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So what kind of growth do we see from that?  
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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [106]  
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Growth?  
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Riya Mehta, [107]  
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Yes.  
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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [108]  
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Well, the base is really low right now, so talking in growth there has no significance. So we'd like you to add on INR 15 crores, INR 20 crores. If I go to INR 40 crores, it will be 100% growth. But is that what we are looking for? Definitely not. We are looking much bigger than that.  
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Riya Mehta, [109]  
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So as in absolute figures, if you can give some ballpark figure where that can where you will budget it to be?  
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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [110]  
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I think not now because I feel whatever I give the briefing is good enough to see what our intention in that market.

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Riya Mehta, [111]  
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Okay. And for the subsidiary level -- sorry, the stand-alone level, what are the traction areas do we see in the -- like in the first half, you expect it to be sluggish. But given suppose we have government funding, so is the industrial segment which is going to keep on increasing the revenue? Or do we see it coming from some other segment as well?

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [112]  
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No. As of this moment, if we look at the year as a whole, the industrial, if government funds comes in, it will just balance out the last year because now first -- H1 is almost wiped out there. So it will just balance out the last year numbers for industrial. PG, as I said, it will be definitely in the middle to high single digit kind of a growth. And other businesses are doing well. So that's not a problem.

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Operator [113]  
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(Operator Instructions) The next question is from the line of Pawan Parakh from Renaissance Investment.

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Pawan Parakh, [114]  
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So sir, my question is on this pump side. If you could just explain, you said you have a 2-pronged strategy, one is (inaudible) in LGM and KOEL Electric. So how are these 2 different? Are these 2 different product lines or catering to 2 different segments?

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [115]  
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No, they are not 2 product lines. They are almost similar products going into the market. But they will be available in mostly different outlets in the marketplace. Because this industry is strongly dominated by the channel power, where channel has a higher power on that. And generally, the retail outlets are the dealer level, they expect kind of exclusivity within certain vicinities. So that's the trend in the market. So once the KOEL Electric are available in some outlets, leaving those outlets, they will not be available. So it will be mutually exclusive kind of a thing that we'll be working out in the marketplace. So -- but the product lines will be almost similar.

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Pawan Parakh, [116]  
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Okay. And these are all essentially Agri-related pumps, right, both in LGM and stand-alone?

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [117]  
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No, no, no. We cater to multiple segments except industrial pumps. We cater to everything. So right now, we cater to small pumps which we call as MMB. We cater to surface pumps which we call as a [CMB]. We cater to submersibles which is called a domestic. And fourth is the Agri one. So these are 4 different segments we cater except the industrial pumps.

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Pawan Parakh, [118]  
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And sir, how big is this KOEL pump in the (inaudible) business? What is the size there? Because you've grown like 93%. How big is that business?

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [119]  
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This year, we'll be crossing INR 100 crore plus.

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Pawan Parakh, [120]  
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Okay. Sir, as an entity, we are like about INR 250 crores revenue in pump.

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [121]  
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No. Much more than that. Much than. LGM will be...

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Pawan Parakh, [122]  
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INR 150 crores is a quarterly number?

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [123]  
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Yes.

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Pawan Parakh, [124]  
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Okay. And sir, you said that you supply to OEMs like content engine. You also have own brand sales. So what would be the break-up between OEM sales and sales under our own brand?

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [125]  
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20% comes from OEM.

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Pawan Parakh, [126]  
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And the balance is all our own brand.  
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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [127]  
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Yes.  
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Pawan Parakh, [128]  
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And the 20% OEM sales is to LGM or stand-alone?  
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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [129]  
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To LGM.  
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Pawan Parakh, [130]  
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Okay. And the margins that we do in the stand-alone business is it similar to the reported margins? Or is it like LGM-type margins? Sir, how are the margins there?  
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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [131]  
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It is almost similar to LGM or slightly better.  
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Operator [132]  
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(Operator Instructions) The next question is from the line of [Chandra Moli] from [Partisan Securities].  
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Unidentified Analyst, [133]  
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(inaudible)  
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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [134]  
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No, no. Sorry, sorry. We could not hear you.

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Unidentified Analyst, [135]

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Sir, you said that just a few minutes back, that the LGM, you are making that one plant into one location, something like that. After that, you are expecting that the EBITDA margin will grow by 2% to 3%. Apart from that, you also said that the H1, if you look at it, it will be much better. But is that beyond that it will grow by 2%, 3% which you're getting to also?

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [136]

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You have to understand the context in which the question was asked. Saying that the question asked that your quarter 1 margins haven't panned out the way you had -- we have anticipated, and hence, is there an issue. So my question was that, no, when we look at -- I mean, my response was that when we look at H1 as a whole, you will definitely see that we would be more or less on track in terms of where we have planned it to go. And yes, when we look at the future and we look at the consolidation, we are looking at efficiencies. From that entire consolidation and over the current base, it can be 2% to 3% is what I meant. And that's -- so your interpretation was right.

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Operator [137]

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

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T. Vinodkumar, Kirloskar Oil Engines Limited - CFO & Chief HR Officer [138]

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Nothing more to add. Thank you.

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Sanjeev Nimkar, Kirloskar Oil Engines Limited - COO [139]

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Thanks.

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Rajendra Ramchandra Deshpande, Kirloskar Oil Engines Limited - CEO, MD & Director [140]

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Thank you.

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Operator [141]

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Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes today's conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

